

**UNIVERSITY OF SOUTH CAROLINA
COLUMBIA AND REGIONALS**

REPORT ON FINANCIAL STATEMENTS

**FOR THE YEAR ENDED
JUNE 30, 2014**

**UNIVERSITY OF SOUTH CAROLINA
COLUMBIA AND REGIONALS**

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Independent Auditor's Report

The Board of Trustees
University of South Carolina
Columbia, South Carolina

Report on Financial Statements

We have audited the accompanying financial statements of the business-type activities and the aggregate discretely presented component units of the University of South Carolina - Columbia and Regionals (the Campuses), campuses of the University of South Carolina, as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the Campuses' basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the South Carolina Research Foundation; the University of South Carolina School of Medicine Educational Trust; the University of South Carolina Educational Foundation; the University of South Carolina Business Partnership Foundation; the Greater University of South Carolina Alumni Association; and the Educational Foundation of the University of South Carolina - Lancaster, which represent approximately 88 percent, 93 percent, and 96 percent, respectively, of the assets, net position/assets, and revenues of the Campuses' aggregate discretely presented component units. Those statements were audited by other auditors whose reports have been furnished to us, and our opinion, insofar as it relates to the amounts included for the Campuses are based solely on the reports of the other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. The financial statements of the University of South Carolina School of Medicine Educational Trust; the University of South Carolina Development Foundation; the University of South Carolina Educational Foundation; the University of South Carolina Business Partnership Foundation; the Greater University of South Carolina Alumni Association; and the Educational Foundation of the University of South Carolina - Lancaster were not audited in accordance with *Government Auditing Standards*, issued by the Comptroller General of the United States.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall financial statement presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities, and the aggregate discretely presented component units of the Campuses as of June 30, 2014, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 1 to the financial statements, in fiscal year 2014 the Campuses adopted new accounting guidance, GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 11 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board (GASB), who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We and other auditors have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 21, 2014, on our consideration of the Campuses' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Campuses' internal control over financial reporting and compliance.

A handwritten signature in black ink that reads "Elliott Davis, LLC". The signature is written in a cursive, flowing style.

Columbia, South Carolina
November 21, 2014

**UNIVERSITY OF SOUTH CAROLINA
COLUMBIA AND REGIONALS
Management's Discussion and Analysis
(Unaudited)**

OVERVIEW OF THE FINANCIAL STATEMENTS AND FINANCIAL ANALYSIS

The University of South Carolina - Columbia and Regionals (collectively referred to as the Campuses) is composed of the Columbia campus, including the School of Medicine with locations in Columbia and Greenville, as well as the Lancaster, Salkehatchie, Sumter and Union campuses. Management's Discussion and Analysis provides an overview and analysis of the Campuses' financial activities for the fiscal year ended June 30, 2014, with comparative information for the fiscal year ended June 30, 2013. This information should be read in conjunction with the financial statements and accompanying footnotes that follow this section. Condensed fiscal year 2014 and 2013 operations and financial position data will be presented in this section in order to illustrate certain increases and decreases. However, the emphasis of discussions about these statements will be on current year data. In addition, this discussion will focus on operations and financial position of the Campuses. This discussion will not include the discretely presented component units, the South Carolina Research Foundation, the University of South Carolina School of Medicine Educational Trust, the University of South Carolina's Development Foundation, Educational Foundation, Business Partnership Foundation, Alumni Association, and the Educational Foundation of the University of South Carolina - Lancaster.

This report includes a series of financial statements, prepared in accordance with the Governmental Accounting Standards Board (GASB) Codification Sections 2100-2900, *Financial Reporting*, and Co5, *Colleges and Universities*. The financial statements presented focus on the financial condition of the Campuses, the results of operations, and cash flows of the Campuses as a whole.

There are three financial statements presented: the Statement of Net Position; the Statement of Revenues, Expenses and Changes in Net Position; and, the Statement of Cash Flows. These statements present financial information in a format similar to that used by private corporations. The Campuses' net position is one indicator of the improvement or erosion of the Campuses' financial health when considered with non-financial facts such as enrollment levels and the condition of the facilities.

STATEMENT OF NET POSITION

The Statement of Net Position presents the assets, liabilities, deferred outflows/inflows, and net position of the Campuses as of the end of the fiscal year. The purpose of the Statement of Net Position is to present to the readers of the financial statements a fiscal snapshot of the Campuses. The Statement of Net Position presents end-of-year data concerning the following:

- Assets - Property that we own and what we are owed by others.
- Deferred Outflows of Resources - Consumption of net resources that is applicable to a future reporting period.
- Liabilities - What we owe to others and have collected from others before we have provided the service.
- Deferred Inflows of Resources - Acquisition of net assets by the government that is applicable to a future reporting period.
- Net Position - The difference between (a) assets and deferred outflows of resources and (b) liabilities and deferred inflows of resources.

**UNIVERSITY OF SOUTH CAROLINA
COLUMBIA AND REGIONALS
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(Unaudited)**

The Statement of Net Position is prepared under the accrual basis of accounting, where revenues and assets are recognized when the service is provided and expenses and liabilities are recognized when others provide the service to us, regardless of when cash is exchanged.

From the data presented, readers of the Statement of Net Position are able to determine the assets available to continue the operations of the Campuses. They are also able to determine how much the Campuses owe vendors, investors, and lending institutions. Finally, the Statement of Net Position provides a picture of the net position and their availability for expenditure by the Campuses. Net position is divided into the following three major categories:

- Net investment in capital assets: Provides the institution's equity in property, plant, and equipment owned by the institution.
- Restricted net position:
 - a. Nonexpendable restricted net position consists solely of the institution's permanent endowment funds and is only available for investment purposes.
 - b. Expendable restricted net position is available for expenditure by the institution but must be spent for purposes as determined by donors and/or external entities that have placed time or purpose restrictions on the use of the assets.
- Unrestricted net position: Represents resources available to the institution for any lawful purpose of the institution.

Summary of Net Position

	2014	RECLASSIFIED 2013*	Increase/ (Decrease)	Percent Change
Assets				
Current assets	\$ 540,224,975	\$ 565,696,741	\$ (25,471,766)	-4.50%
Capital assets, net	1,073,152,160	983,659,748	89,492,412	9.10%
Other noncurrent assets	114,581,151	122,656,019	(8,074,868)	-6.58%
Total assets	1,727,958,286	1,672,012,508	55,945,778	3.35%
Deferred Outflows of Resources				
Deferred loss on debt refunding	4,647,394	-	4,647,394	0.00%
Liabilities				
Current liabilities	128,417,891	105,449,515	22,968,376	21.78%
Noncurrent liabilities	489,441,739	492,011,684	(2,569,945)	-0.52%
Total liabilities	617,859,630	597,461,199	20,398,431	3.41%
Net Position				
Net investment in capital assets	605,275,419	565,376,068	39,899,351	7.06%
Restricted - nonexpendable	78,766,989	73,253,629	5,513,360	7.53%
Restricted - expendable	126,796,996	115,340,889	11,456,107	9.93%
Unrestricted	303,906,646	320,580,723	(16,674,077)	-5.20%
Total net position	\$ 1,114,746,050	\$ 1,074,551,309	\$ 40,194,741	3.74%

*Reclassifications - Prior period Net Position amounts have been reclassified to conform to current period presentation.

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- Total assets of the Campuses increased by \$55.9 million. Current assets decreased \$25.4 million and other noncurrent assets decreased by \$8 million while capital assets increased by \$89.5 million. Due to the implementation of a new student administrative system that includes increased access to payment plans for students, accounts receivable has increased. Also, a change to the structure of the summer term and expansion of program offerings during that term to encourage students to attend full time led to increased tuition and accounts receivable at fiscal year-end. Furthermore, capital assets increased due to the completion of the Darla Moore School of Business, several athletic facility projects, and residence hall renovations during fiscal year 2014.
- Deferred outflows of resources consist of the unamortized loss on prior year's debt refunding due to the implementation of GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*. See Note 1 - Summary of Significant Accounting Policies for further information.
- The increase in total liabilities of \$20.4 million is primarily attributable to an increase in current liabilities. Accounts payable increased \$8.9 million due to the completion of several capital projects at the end of the fiscal year, including the Darla Moore School of Business. Also, unearned revenues increased \$8.1 million due to deferral of fiscal year 2015 tuition revenue for the second portion of the summer term. This deferral is necessary due to the change to summer course offerings that extend over the fiscal year end.

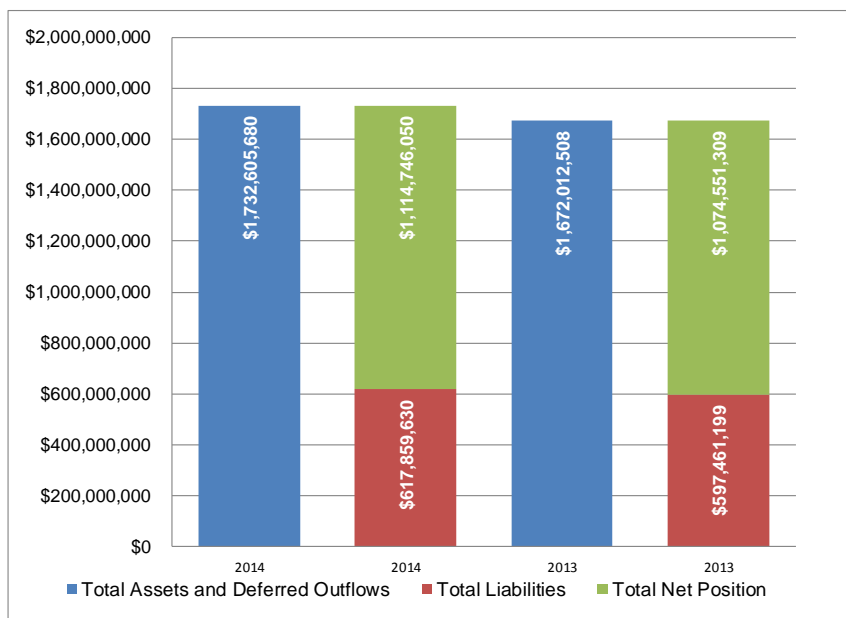
The net position of the Campuses increased during the year by \$40.2 million. The increase is driven by the following:

- \$39.9 million increase in net investment in capital assets - Net investment in capital assets shows the difference between capital assets and the outstanding debt incurred to finance those capital assets. Not all long-term debt may be deducted from capital assets; only the debt issued to finance the University's capital assets is subtracted. Long-term debt associated with unspent bond proceeds is subtracted from the restricted capital project component of net position. Net investment in capital assets increased due to the start-up and completion of various capital projects, including Darla Moore School of Business, several athletic facility projects, residence hall renovations and continued upgrades to campus technology systems.
- \$11.5 million increase in expendable restricted - Expendable restricted net position represents resources that are constrained to a particular purpose by externally imposed stipulations. These constraints may be derived from the donor of the resources or from an external entity. Also, restrictions can be imposed as a result of enabling legislation. Expendable restricted net position increased by \$21.2 million due to various internally funded capital projects including the Close/Hipp building renovation and was offset by a \$14 million decrease due to debt service.

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- \$16.7 million decrease in unrestricted net position - Unrestricted net position results from accumulated excesses of revenue over expenses derived from University operations. The University's unrestricted current funds are derived from state appropriations, student fees, institutional revenue and auxiliary operations that are not restricted for specific purposes. Unrestricted net position includes balances from operation of education and general activities, auxiliary enterprises, quasi-endowments and unexpended plant funds. Although unrestricted net position is not subject to externally imposed stipulations, most of these resources have been committed for specific University activities including academic and research programs, capital projects and significant upgrades to the campus technology network. During fiscal year 2014, the University continued to use unrestricted funding towards significant upgrades to campus technology systems and start up packages for new faculty to support increased enrollment at the Columbia campus. The reduction in unrestricted net position for the fiscal years 2012, 2013, and 2014 was planned for capital and programmatic improvements. Unrestricted net position will decrease in 2015 as the strategic plan implementation continues.

Assets, Deferred Outflows, Liabilities and Net Position



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Management's Discussion and Analysis
(Unaudited)**

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

The Statement of Revenues, Expenses and Changes in Net Position presents the revenues earned and expenses incurred during the year. Activities are reported as either operating or nonoperating. A public university's dependency on state aid and gifts will result in operating deficits. GASB requires state appropriations and gifts to be classified as nonoperating revenues. The utilization of long-lived assets, referred to as Capital Assets, is reflected in the financial statements as depreciation, which amortizes the cost of an asset over its expected useful life.

Changes in net position as presented on the Statement of Net Position are based on the activity presented in the Statement of Revenues, Expenses and Changes in Net Position. The purpose of the statement is to present the revenues received by the Campuses, both operating and nonoperating, and the expenses paid by the Campuses, operating and nonoperating, and any other revenues, expenses, gains and losses received or spent by the Campuses.

Operating revenues are received for providing goods and services to the various customers and constituencies of the Campuses. Operating expenses are those expenses paid to acquire or produce the goods and services provided in return for the operating revenues, and to carry out the mission of the Campuses. Nonoperating revenues are revenues received for which goods and services are not provided. State capital appropriations and capital grants and gifts are considered neither operating nor nonoperating revenues.

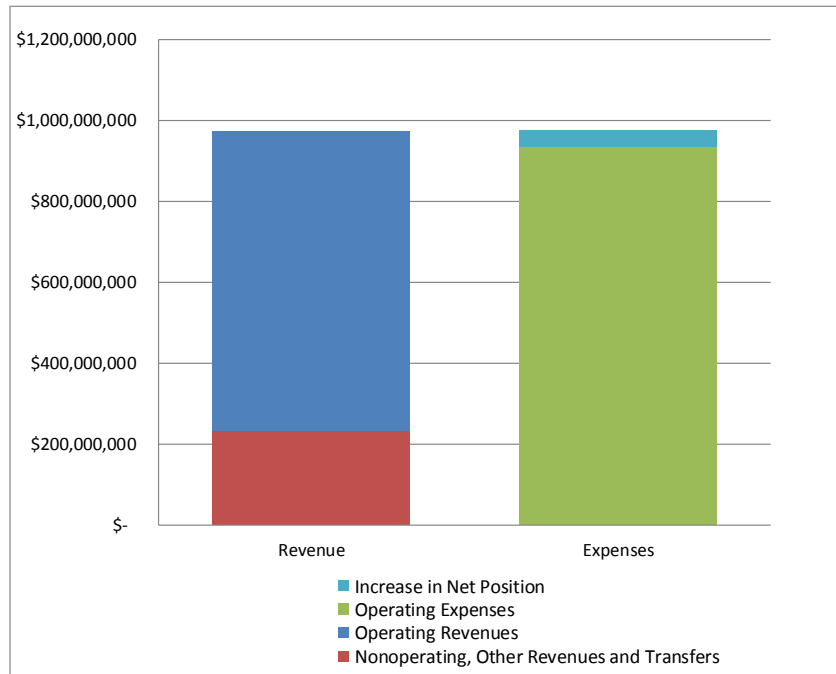
**UNIVERSITY OF SOUTH CAROLINA
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Management's Discussion and Analysis
(Unaudited)**

Summary of Revenues, Expenses and Changes in Net Position

	2014	2013	Increase/ (Decrease)	Percent Change
Operating Revenues:				
Student tuition and fees, net	\$ 352,377,729	\$ 330,128,717	\$ 22,249,012	6.74%
Federal grants and contracts	125,027,020	125,260,528	(233,508)	-0.19%
State grants and contracts	70,658,329	66,820,913	3,837,416	5.74%
Local grants and contracts	517,641	900,852	(383,211)	-42.54%
Nongovernmental grants and contracts	38,419,991	34,598,215	3,821,776	11.05%
Sales and services of educational and other activities	24,629,890	22,226,066	2,403,824	10.82%
Sales and services of auxiliary enterprises, net	119,240,195	117,513,502	1,726,693	1.47%
Interest collected on student loans	305,423	280,456	24,967	8.90%
Other fees	8,567,535	5,498,967	3,068,568	55.80%
Other operating revenues	2,094,809	4,177,609	(2,082,800)	-49.86%
Total operating revenues	<u>741,838,562</u>	<u>707,405,825</u>	<u>34,432,737</u>	4.87%
Operating Expenses:				
Salaries and wages	476,674,643	458,471,073	18,203,570	3.97%
Fringe benefits	140,527,376	132,679,679	7,847,697	5.91%
Services and supplies	216,257,934	203,252,046	13,005,888	6.40%
Utilities	29,916,173	26,837,643	3,078,530	11.47%
Scholarships and fellowships	16,406,568	16,929,182	(522,614)	-3.09%
Depreciation expense	54,341,468	45,399,193	8,942,275	19.70%
Total operating expenses	<u>934,124,162</u>	<u>883,568,816</u>	<u>50,555,346</u>	5.72%
Operating loss	(192,285,600)	(176,162,991)	(16,122,609)	9.15%
Net nonoperating revenues	<u>204,698,006</u>	<u>168,569,301</u>	<u>36,128,705</u>	21.43%
Income (loss) before other revenues and transfers	12,412,406	(7,593,690)	20,006,096	-263.46%
Other revenues and transfers	<u>27,782,335</u>	<u>19,017,629</u>	<u>8,764,706</u>	46.09%
Increase in net position	40,194,741	11,423,939	28,770,802	251.85%
Net position at beginning of year	<u>1,074,551,309</u>	<u>1,063,127,370</u>	<u>11,423,939</u>	1.07%
Net position at end of year	<u>\$ 1,114,746,050</u>	<u>\$ 1,074,551,309</u>	<u>\$ 40,194,741</u>	3.74%

**UNIVERSITY OF SOUTH CAROLINA
COLUMBIA AND REGIONALS
Management's Discussion and Analysis
(Unaudited)**

Revenues, Expenses and Changes in Net Position



The Statement of Revenues, Expenses and Changes in Net Position reflects a positive year with an increase in net position at the end of the year. Some highlights of the information presented on this summary are as follows:

- An increase of \$34.4 million in total operating revenues is due to the following:
 - Student tuition and fee revenue, net of the scholarship allowance, increased by \$22.2 million primarily due to a 3.12% tuition increase for USC System campuses. Additionally, student demand for enrollment at the Columbia campus continued to increase with growth of 3.4% in full time equivalent students. The combined tuition and enrollment increase for the Columbia campus accounts for the majority of the fiscal year 2014 change in student tuition and fee revenue.
 - Sales and services of auxiliary enterprises are driven by an increase in football ticket revenue for Gamecock Athletics and a 5% increase in residence hall rates.
 - Contracts and grants increased due to additional state match dollars for the Experimental Program to Stimulate Competitive Research grant which the University had been a subrecipient in prior years. Additionally, the Greenville School of Medicine received \$3.3 million in grants during fiscal year 2014 due to increased activity in the second full year of operation.
 - Other fees increased due to an increase in football ticket revenue for bond fees.

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- Operating expenses increased \$50.6 million, 5.7% over the prior year. The majority of the increase, approximately \$26 million, is due to the increase in personnel and fringe benefits from additional faculty and staff to serve the increased student enrollment as well as increases in employer retirement contributions and health insurance. Services and supplies increased \$13 million due to inflationary and enrollment increases and completion of various capital projects. Depreciation expense increased \$8.9 million due to the completion of strategic and deferred maintenance projects over the past several fiscal years.
- Nonoperating revenue and expense changes are primarily due to the Biomass termination agreement. The Biomass Facility's remaining net book value of \$14 million was written off during fiscal year 2013 due to impairment. During fiscal year 2014, the Campuses recognized \$12.3 million in termination proceeds. For further details on the Biomass Facility, please refer to Note 14 in the Notes to the Financial Statements.

STATEMENT OF CASH FLOWS

The final statement presented is the Statement of Cash Flows. The Statement of Cash Flows presents detailed information about the cash activity of the Campuses during the year. The statement is divided into the following five parts.

- Operating Activities - the net cash provided by (used for) the operating activities of the institution.
- Noncapital Financing Activities - the cash received and spent for nonoperating, noninvesting, and noncapital financing purposes.
- Capital and Related Financing Activities - the cash used for the acquisition and construction of capital and related items.
- Investing Activities - the purchases, proceeds, and interest received from investing activities.
- Reconciliation - reconciles the net cash provided by (used for) to the operating income (loss) reflected on the Statement of Revenues, Expenses, and Changes in Net Position.

CAPITAL ASSET AND DEBT ADMINISTRATION

During the year, various projects on the Columbia campus were in progress including renovations to the Health Sciences building and the Women's Quad dormitories, construction of the Darla Moore School of Business, and several projects addressing deferred maintenance. The Athletics department also had several projects in progress including completion of the new softball stadium.

The Campuses' indebtedness consists of bonds payable of \$462.6 million and notes payable of \$112,000. During the current year, \$11.7 million in state institution bonds were issued to fund Health Sciences Building Renovations. Due to several refundings in the prior years that took advantage of existing low interest rates, no bonds were refunded in the current year.

For more detailed information on capital asset and debt activity please refer to Note 4 - Capital Assets and Note 9 - Bonds and Notes Payable in the Notes to the Financial Statements.

**UNIVERSITY OF SOUTH CAROLINA
COLUMBIA AND REGIONALS
Management's Discussion and Analysis
(Unaudited)**

ECONOMIC OUTLOOK

The economic position of the Campuses continues to be loosely tied to that of the State of South Carolina (the State) as evidenced by the Campuses' sustained strong financial performance despite significant reductions in state appropriations from 2008 through 2012. The Campuses received additional recurring state funding to begin the 2014 fiscal year to support a portion of state employee health insurance increases and provide parity funding for Campuses to address the base state funding per student inequities. Additionally the State provided new funding to fulfill a previous non-recurring commitment to the Palmetto College, a virtual college that provides higher education opportunities for students from all economic and geographic regions to earn a bachelor's degree near or from their own homes. The State has invested \$5 million in recurring funding for this important initiative. As support for a new initiative developed by the University's President, the State provided \$2.5 million in non-recurring funds in the 2014 fiscal year for the On Your Time Graduation Initiative, a program that recognizes that the traditional university academic calendar has become antiquated and inflexible for today's student, many times impeding timely degree completion, costing students more in tuition and student loans, and delaying employment in South Carolina's economy. By redefining the traditional university academic calendar, providing flexibility, and maximizing assets, the Campuses will provide a model for colleges and universities in the State and beyond her borders.

The State finished the 2014 fiscal year on a positive note with full funding of the State's Rainy Day Fund at 5% of the prior year's General Fund Revenues and also fully funded the Capital Reserve Account at 2% of the prior year's General Fund Revenues. The Campuses are beneficiaries of the fifth straight year of state surpluses, as excess lottery proceeds totaling 1,419,745 were made available for operations and critical equipment replacements in 2015. The State is funding a higher education efficiency, effectiveness and accountability review for all public higher education institutions and supporting this initiative through allocation of \$2.7 million. Additionally, the Campuses received new funds to further address the lack of parity funding.

The University's overall financial position remains strong. The University relies on tuition and fees to support the general operating budget and is aware of State funding support when tuition and fees are set. Tuition increases for the 2014 year are in line with the Higher Education Price Index (HEPI) but will not cover the full impact of all inflationary needs and new initiatives. Resident undergraduate tuitions for two other public institutions in the State exceed the tuition rate for the USC Columbia campus. System campus tuitions are comparable with similar institutions in the State. Demand for enrollment and interest in the University remains strong with record numbers of applications received and a freshman class enrolled at the USC Columbia campus for Fall 2014 of nearly 5,000 students. Preliminary data indicates that this entering class is also the most academically talented in the University's history with an average SAT score of 1210 and an average ACT score of 27.1. The University continues to cultivate both student quality and access through the development of innovative programs such as the Gamecock Gateway. The Gamecock Gateway is a program in its third year designed as a bridge to enrollment at the University. This one-year residential program is offered by invitation only to students who begin their course work at a local technical college and have access to University programs before transferring in their second year. For the Fall 2014 semester 328 new students are enrolled in the Gamecock Gateway and 230 students from the first two years of the bridge program are now fully enrolled at USC Columbia.

University fundraising is nearing the completion of Carolina's Promise, the largest capital campaign in University history with a \$1 billion goal. As of June 30, 2014 the University has raised \$870.9 million and expects to meet the goal during the 2015 calendar year. Research grant awards were \$230.2 million in the 2014 fiscal year, a \$10 million increase over the prior year. The University research award experience is counter to the national trend of declining Federal awards due to Sequestration.

UNIVERSITY OF SOUTH CAROLINA
COLUMBIA AND REGIONALS
Statement of Net Position
June 30, 2014

ASSETS

Current assets:

Cash and cash equivalents	\$ 330,002,120
Restricted - cash and cash equivalents	139,883,944
Accounts receivable, net	48,006,821
Student loans receivable, current	3,111
Capital improvement bonds proceeds receivable	2,824,847
Inventories	1,571,248
Prepaid items	11,491,368
Funds due from others	6,441,516
Total current assets	<u>540,224,975</u>

Noncurrent assets:

Restricted - cash and cash equivalents	81,616,222
Investments	5,007,166
Prepaid items	2,200,000
Notes receivable	6,445,101
Restricted - federal student loans receivable	16,638,064
Capital assets, net of accumulated depreciation	1,073,152,160
Other assets	2,674,598
Total noncurrent assets	<u>1,187,733,311</u>

Total assets	<u>1,727,958,286</u>
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DEFERRED OUTFLOWS OF RESOURCES

Deferred loss on debt refunding	<u>4,647,394</u>
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LIABILITIES

Current liabilities:

Accounts payable	30,627,903
Retainage payable - current portion	4,153,866
Accrued interest payable	3,279,674
Accrued payroll and related liabilities	13,256,395
Accrued compensated absences - current portion	16,157,500
Capital lease obligations - current portion	643,555
Long-term debt - current portion	17,868,893
Unearned revenues	39,403,396
Deposits	2,160,877
Other liabilities	679,238
Funds held for others	186,594
Total current liabilities	<u>128,417,891</u>

Noncurrent liabilities:

Retainage payable	167,435
Accrued compensated absences	13,763,795
Federal loan liability	15,419,133
Capital lease obligations	15,256,632
Long-term debt	444,834,744
Total noncurrent liabilities	<u>489,441,739</u>

Total liabilities	<u>617,859,630</u>
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NET POSITION

Net investment in capital assets	605,275,419
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Restricted for:

Nonexpendable	78,766,989
Expendable	
Scholarships, research, instruction, and other	26,722,000
Loans	3,075,293
Capital projects	86,689,207
Debt service	10,310,496

Unrestricted	<u>303,906,646</u>
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Total net position	<u>\$ 1,114,746,050</u>
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See Notes to Basic Financial Statements

**UNIVERSITY OF SOUTH CAROLINA
COLUMBIA AND REGIONALS
Statement of Revenues, Expenses and Changes in Net Position
For the year ended June 30, 2014**

OPERATING REVENUES

Student tuition and fees (\$26,417,647 pledged for bonds)	\$ 557,350,176
Less: scholarship allowance	(204,972,447)
Federal grants and contracts	125,027,020
State grants and contracts	70,658,329
Local grants and contracts	517,641
Nongovernmental grants and contracts	38,419,991
Sales and services of educational and other activities	24,629,890
Sales and services of auxiliary enterprises (\$15,223,033 pledged for bonds)	123,182,722
Less: scholarship allowance	(3,942,527)
Interest collected on student loans	305,423
Other fees (\$4,072,001 pledged for bonds)	8,567,535
Other operating revenues	<u>2,094,809</u>
Total operating revenues	<u>741,838,562</u>

OPERATING EXPENSES

Salaries and wages	476,674,643
Fringe benefits	140,527,376
Services and supplies	216,257,934
Utilities	29,916,173
Scholarships and fellowships	16,406,568
Depreciation expense	<u>54,341,468</u>
Total operating expenses	<u>934,124,162</u>
Operating loss	<u>(192,285,600)</u>

NONOPERATING REVENUES (EXPENSES)

State appropriations	123,530,871
Federal grants	32,390,054
Gifts	43,428,362
Investment income	2,250,540
Endowment income	6,196,287
Loss on disposal of capital assets	(719,042)
Interest on capital asset related debt	(14,649,066)
Biomass termination agreement	<u>12,270,000</u>
Net nonoperating revenues	<u>204,698,006</u>
Income before other revenues and transfers	12,412,406
State capital appropriations	12,601,573
Capital grants and gifts	10,508,101
Additions to permanent endowments	4,724,926
Transfers to other campuses, net	<u>(52,265)</u>
Change in net position	40,194,741

NET POSITION, BEGINNING OF YEAR 1,074,551,309

NET POSITION, END OF YEAR **\$ 1,114,746,050**

**UNIVERSITY OF SOUTH CAROLINA
COLUMBIA AND REGIONALS
Statement of Cash Flows
For the year ended June 30, 2014**

OPERATING ACTIVITIES

Student tuition and fees	\$ 361,859,384
Research grants and contracts	238,872,535
Sales and services of educational and other activities	24,186,125
Sales and services of auxiliary enterprises	118,642,373
Student loans disbursed	(3,509,108)
Student loans collected	2,921,167
Interest collected on student loans	305,423
Inflows from federal direct student loans	208,608,755
Outflows from federal direct student loans	(209,949,555)
Payments to employees for services	(474,391,596)
Payments to employees for benefits	(141,642,642)
Payments to suppliers	(248,651,893)
Payments to students for scholarships and fellowships	(16,406,568)
Other receipts	11,078,314
Inflows from agency funds	71,159,510
Outflows from agency funds	(69,056,438)
	<hr/>
Net cash used for operating activities	(125,974,214)

NONCAPITAL FINANCING ACTIVITIES

State appropriations	123,530,416
Federal grants	32,390,054
Gifts and grants	43,232,035
Additions to permanent endowments	3,224,926
Biomass termination agreement	12,270,000
Transfers to other campuses, net	(52,265)
Federal loan liability	(481,992)
	<hr/>
Net cash provided by noncapital financing activities	214,113,174

CAPITAL AND RELATED FINANCING ACTIVITIES

Proceeds from capital debt	12,829,234
Proceeds from state capital appropriations	11,824,724
Capital grants and gifts	1,168,642
Proceeds from sale of capital assets	10,000
Purchase and construction of capital assets	(127,318,709)
Principal paid on capital asset related debt	(15,203,963)
Interest paid on capital asset related debt	(20,984,334)
	<hr/>
Net cash used for capital and related financing activities	(137,674,406)

INVESTING ACTIVITIES

Proceeds from note receivable	2,974,187
Investment Income	5,290,904
Endowment Income	5,254,709
	<hr/>
Net cash provided by investing activities	13,519,800

Net decrease in cash and cash equivalents (36,015,646)

Cash and cash equivalents, beginning of year 587,517,932

Cash and cash equivalents, end of year **\$ 551,502,286**

Reconciliation of cash and cash equivalents

Cash and cash equivalents	\$ 330,002,120
Restricted - cash and cash equivalents, current	139,883,944
Restricted - cash and cash equivalents, noncurrent	81,616,222
	<hr/>
	<u>\$ 551,502,286</u>

**UNIVERSITY OF SOUTH CAROLINA
COLUMBIA AND REGIONALS
Statement of Cash Flows
For the year ended June 30, 2014**

**Reconciliation of net operating loss to net cash
used for operating activities**

Operating loss	\$ (192,285,600)
Adjustments to reconcile operating loss to net cash used for operating activities	
Depreciation expense	54,341,468
Student loans cancelled	187,520
Change in current assets and liabilities	
Accounts receivable, net	5,086,640
Student loans receivable	(587,941)
Inventories	204,351
Prepaid items	(6,387,275)
Accounts payable	3,509,550
Retainage payable - noncapital	8,068
Accrued payroll	399,714
Accrued benefits	(1,115,266)
Accrued compensated absences	1,883,333
Unearned revenues	8,210,625
Deposits	(375,273)
Other liabilities	183,600
Funds held for others	762,272
	<u>762,272</u>
Net cash used for operating activities	<u><u>\$ (125,974,214)</u></u>

NONCASH TRANSACTIONS

Gifts of capital assets reducing proceeds of capital grants and gifts	<u><u>\$ 4,719,461</u></u>
Loss on disposal of capital assets, net	<u><u>\$ (719,042)</u></u>
Capital assets acquired through a capital lease	<u><u>\$ 548,000</u></u>
Change in value of other assets for cash surrender value of life insurance recognized in endowment income	<u><u>\$ 153,474</u></u>
Change in value of investments recognized in endowment and investment income	<u><u>\$ 788,104</u></u>

**UNIVERSITY OF SOUTH CAROLINA
COLUMBIA AND REGIONALS
South Carolina Research Foundation
Governmental Discretely Presented Component Unit
Statement of Net Position
June 30, 2014**

ASSETS

Current assets

Cash and cash equivalents	\$ 433,720
Restricted cash and cash equivalents	21,045,122
Accounts receivable, net	36,206,553
Prepaid items and deposits	<u>56,508</u>
Total current assets	<u>57,741,903</u>

Noncurrent assets

Capital assets, net of accumulated depreciation	<u>94,109</u>
Total noncurrent assets	<u>94,109</u>
Total assets	<u>57,836,012</u>

LIABILITIES

Current liabilities

Accounts payable and accrued expenses	45,641,654
Unearned revenue	11,166,250
Current portion of notes payable	<u>59,309</u>
Total current liabilities	<u>56,867,213</u>

Noncurrent liabilities

Long term notes payable	<u>20,640</u>
Total noncurrent liabilities	<u>20,640</u>
Total liabilities	<u>56,887,853</u>

NET POSITION

Net investment in capital assets	10,809
Unrestricted	<u>937,350</u>
Total net position	<u><u>\$ 948,159</u></u>

**UNIVERSITY OF SOUTH CAROLINA
COLUMBIA AND REGIONALS
South Carolina Research Foundation
Governmental Discretely Presented Component Unit
Statement of Revenues, Expenses and Changes in Net Position
For the year ended June 30, 2014**

REVENUES

Operating revenues	
Federal grants and contracts	\$ 50,429,446
Nongovernmental grants and contracts	81,880,262
Management fees and recoveries	9,446,999
Royalty income	48,567
Other operating revenues	<u>20,491</u>
Total operating revenues	<u>141,825,765</u>

EXPENSES

Operating expenses	
Salaries and benefits	982,838
Services and supplies	1,210,381
Research and development direct costs	<u>139,629,314</u>
Total operating expenses	<u>141,822,533</u>
Operating income	<u>3,232</u>

NONOPERATING REVENUES (EXPENSES)

Private gifts and donations	(215,117)
Interest income	<u>7,024</u>
Net nonoperating expenses	<u>(208,093)</u>
Change in net position	(204,861)

NET POSITION, BEGINNING OF YEAR	<u>1,153,020</u>
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NET POSITION, END OF YEAR	<u><u>\$ 948,159</u></u>
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**UNIVERSITY OF SOUTH CAROLINA
COLUMBIA AND REGIONALS
School of Medicine Educational Trust
Governmental Discretely Presented Component Unit
Statement of Net Position
June 30, 2014**

ASSETS

Current assets	
Cash and cash equivalents	\$ 18,779,001
Investments	9,642,167
Patient accounts receivable, less allowance for doubtful accounts of \$2,703,000	2,752,000
Other accounts receivable	9,358,440
Limited use assets	<u>354,169</u>
Total current assets	<u>40,885,777</u>
Noncurrent assets	
Capital assets, net of accumulated depreciation	<u>10,899,355</u>
Total noncurrent assets	<u>10,899,355</u>
Total assets	<u>51,785,132</u>

LIABILITIES

Current liabilities	
Accounts payable and accrued expenses	6,912,391
Accrued compensated balances	1,069,341
Current portion of revenue bonds	5,100,000
Current portion of capital lease obligations	<u>163,025</u>
Total current liabilities	<u>13,244,757</u>
Noncurrent liabilities	
Long term capital lease obligations	<u>102,061</u>
Total noncurrent liabilities	<u>102,061</u>
Total liabilities	<u>13,346,818</u>

NET POSITION

Net investment in capital assets	5,534,269
Unrestricted	<u>32,904,045</u>
Total net position	<u><u>\$ 38,438,314</u></u>

**UNIVERSITY OF SOUTH CAROLINA
COLUMBIA AND REGIONALS
School of Medicine Educational Trust
Governmental Discretely Presented Component Unit
Statement of Revenues, Expenses and Changes in Net Position
For the year ended June 30, 2014**

REVENUES

Operating revenues	
Patient charges, net of contractual allowances & discounts	\$ 35,839,172
Less, provision for bad debts	<u>(2,703,000)</u>
Net patient service revenue less provision for bad debts	33,136,172
Other contract and professional income	27,133,820
Realized investment income, net	582,007
Rental income	223,376
Other income	<u>9,546,167</u>
Total operating revenues	<u>70,621,542</u>

EXPENSES

Operating expenses	
Support of medical school and clinical facilities	7,305,916
Operation of clinical facilities	55,740,470
Operation of building and equipment	2,434,305
Management and general	<u>503</u>
Total operating expenses	<u>65,481,194</u>
Operating income	5,140,348

NONOPERATING REVENUES

Unrealized gain on investment holdings, net	<u>750,025</u>
Change in net position	5,890,373

NET POSITION, BEGINNING OF YEAR	<u>32,547,941</u>
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NET POSITION, END OF YEAR	<u><u>\$ 38,438,314</u></u>
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**UNIVERSITY OF SOUTH CAROLINA
COLUMBIA AND REGIONALS
Non-Governmental Discretely Presented Component Units
Statements of Financial Position
June 30, 2014**

	University of South Carolina Development Foundation	University of South Carolina Educational Foundation	University of South Carolina Business Partnership Foundation	Greater University of South Carolina Alumni Association	Educational Foundation of the University of South Carolina Lancaster	Total
ASSETS						
Cash and cash equivalents	\$ 3,226,414	\$ 7,153,730	\$ 4,149,820	\$ 2,316,240	\$ 344,948	\$ 17,191,152
Investments	31,387,655	336,232,894	51,672,198	6,052,467	7,736,278	433,081,492
Real estate held for investment	28,631,363	2,384,646	-	-	-	31,016,009
Assets held in trust	-	69,772,950	5,045,510	-	-	74,818,460
Accounts receivable	332,739	4,494,893	1,005,355	1,128,324	-	6,961,311
Contributions receivable, net	2,183,627	35,733,376	4,354,516	-	514,324	42,785,843
Prepaid expenses	21,857	-	23,308	230,727	-	275,892
Other assets	172,735	1,250	131,265	41,355	-	346,605
Fixed assets, net of depreciation	21,706,986	-	-	5,378,647	8,619,662	35,705,295
Total assets	<u>\$ 87,663,376</u>	<u>\$ 455,773,739</u>	<u>\$ 66,381,972</u>	<u>\$ 15,147,760</u>	<u>\$ 17,215,212</u>	<u>\$ 642,182,059</u>
LIABILITIES						
Accounts payable and accrued expenses	\$ 3,238,248	\$ 9,770,108	\$ 1,651,756	\$ 1,230,494	\$ 7,314	\$ 15,897,920
Lines-of-credit	19,563,616	-	-	-	-	19,563,616
Deferred revenues	-	-	-	300,345	-	300,345
Bonds and notes payable	20,565,914	12,201,619	-	2,085,336	4,222,004	39,074,873
Interest rate swap	2,417,379	-	-	-	-	2,417,379
Other liabilities	17,866	7,880,875	1,334,850	-	-	9,233,591
Total liabilities	<u>45,803,023</u>	<u>29,852,602</u>	<u>2,986,606</u>	<u>3,616,175</u>	<u>4,229,318</u>	<u>86,487,724</u>
NET ASSETS						
Unrestricted	15,635,099	76,863,037	12,794,019	7,710,592	5,551,083	118,553,830
Temporarily restricted	23,317,790	149,438,612	24,258,040	3,820,993	2,469,575	203,305,010
Permanently restricted	3,365,928	199,619,488	26,343,307	-	4,965,236	234,293,959
Total Foundation net assets	<u>42,318,817</u>	<u>425,921,137</u>	<u>63,395,366</u>	<u>11,531,585</u>	<u>12,985,894</u>	<u>556,152,799</u>
Noncontrolling interest	(458,464)	-	-	-	-	(458,464)
Total net assets	<u>41,860,353</u>	<u>425,921,137</u>	<u>63,395,366</u>	<u>11,531,585</u>	<u>12,985,894</u>	<u>555,694,335</u>
Total liabilities and net assets	<u>\$ 87,663,376</u>	<u>\$ 455,773,739</u>	<u>\$ 66,381,972</u>	<u>\$ 15,147,760</u>	<u>\$ 17,215,212</u>	<u>\$ 642,182,059</u>

**UNIVERSITY OF SOUTH CAROLINA
COLUMBIA AND REGIONALS
Non-Governmental Discretely Presented Component Units
Statements of Activities
For the year ended June 30, 2014**

	University of South Carolina Development Foundation	University of South Carolina Educational Foundation	University of South Carolina Business Partnership Foundation	Greater University of South Carolina Alumni Association	Educational Foundation of the University of South Carolina Lancaster	Total
CHANGES IN UNRESTRICTED NET ASSETS:						
Revenues, gains and other support						
Contributions	\$ 20,203	\$ 25,505,927	\$ 1,624,395	\$ 1,850,008	\$ 944,547	\$ 29,945,080
Investment returns	4,904,578	2,786,559	1,695,846	101,527	167,608	9,656,118
Net realized and unrealized gains	-	19,159,876	-	928,541	-	20,088,417
Earned income	4,252,324	-	1,779,259	511,760	-	6,543,343
Other	385,711	958,878	-	1,097,257	112,409	2,554,255
Gain on disposal of assets	2,121,424	-	-	-	-	2,121,424
Net assets released from restrictions:						
Transfers	8,020	-	909,386	-	86,035	1,003,441
Reclassification based on law change	-	-	3,162	-	-	3,162
Satisfaction of program restrictions	-	4,887,683	3,604,161	-	421,033	8,912,877
Expiration of time restrictions	-	7,875,125	-	176,799	-	8,051,924
Total revenues, gains and other support	<u>11,692,260</u>	<u>61,174,048</u>	<u>9,616,209</u>	<u>4,665,892</u>	<u>1,731,632</u>	<u>88,880,041</u>
Expenses						
Scholarships and student assistance	-	9,142,461	792,899	176,750	166,735	10,278,845
Program services	1,678,898	20,640,797	5,540,092	1,600,822	166,427	29,627,036
Supporting services	<u>3,948,269</u>	<u>3,664,747</u>	<u>276,155</u>	<u>959,088</u>	<u>307,606</u>	<u>9,155,865</u>
Total expenses	<u>5,627,167</u>	<u>33,448,005</u>	<u>6,609,146</u>	<u>2,736,660</u>	<u>640,768</u>	<u>49,061,746</u>
Excess revenues over (under) expenses	6,065,093	27,726,043	3,007,063	1,929,232	1,090,864	39,818,295
Interest rate swap fair value adjustment	<u>(1,206,717)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(1,206,717)</u>
Change in unrestricted net assets	<u>4,858,376</u>	<u>27,726,043</u>	<u>3,007,063</u>	<u>1,929,232</u>	<u>1,090,864</u>	<u>38,611,578</u>

**UNIVERSITY OF SOUTH CAROLINA
COLUMBIA AND REGIONALS
Non-Governmental Discretely Presented Component Units
Statements of Activities
For the year ended June 30, 2014**

	University of South Carolina Development Foundation	University of South Carolina Educational Foundation	University of South Carolina Business Partnership Foundation	Greater University of South Carolina Alumni Association	Educational Foundation of the University of South Carolina Lancaster	Total
CHANGES IN TEMPORARILY RESTRICTED NET ASSETS						
Contributions	826,695	14,954,393	6,894,747	80,708	222,259	22,978,802
Investment returns	168,882	2,521,857	-	-	999,066	3,689,805
Net realized and unrealized gains	-	28,485,576	-	-	-	28,485,576
Other	126,048	134,750	1,582,594	251,013	-	2,094,405
Net assets released from restrictions:						
Transfers	(8,020)	-	(1,409,386)	-	(111,104)	(1,528,510)
Reclassification based on law change	-	-	(3,162)	-	-	(3,162)
Satisfaction of program restrictions	-	(7,798,025)	(3,604,161)	(176,799)	(421,033)	(12,000,018)
Expiration of time restrictions	-	(11,572,780)	-	-	-	(11,572,780)
Change in temporarily restricted net assets	<u>1,113,605</u>	<u>26,725,771</u>	<u>3,460,632</u>	<u>154,922</u>	<u>689,188</u>	<u>32,144,118</u>
CHANGES IN PERMANENTLY RESTRICTED NET ASSETS						
Contributions	-	9,555,664	2,263,671	-	84,895	11,904,230
Net assets released from restrictions:						
Transfers	-	-	500,000	-	25,069	525,069
Satisfaction of program restrictions	-	2,910,342	-	-	-	2,910,342
Expiration of time restrictions	-	<u>3,697,655</u>	-	-	-	<u>3,697,655</u>
Change in permanently restricted net assets	<u>-</u>	<u>16,163,661</u>	<u>2,763,671</u>	<u>-</u>	<u>109,964</u>	<u>19,037,296</u>
Change in net assets	5,971,981	70,615,475	9,231,366	2,084,154	1,890,016	89,792,992
Net change attributable to noncontrolling interest	<u>(42,774)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(42,774)</u>
NET ASSETS, BEGINNING OF YEAR	<u>36,389,610</u>	<u>355,305,662</u>	<u>54,164,000</u>	<u>9,447,431</u>	<u>11,095,878</u>	<u>466,402,581</u>
NET ASSETS, END OF YEAR	<u>\$ 42,318,817</u>	<u>\$ 425,921,137</u>	<u>\$ 63,395,366</u>	<u>\$ 11,531,585</u>	<u>\$ 12,985,894</u>	<u>\$ 556,152,799</u>

**UNIVERSITY OF SOUTH CAROLINA
COLUMBIA AND REGIONALS
Notes to the Financial Statements**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations - The University of South Carolina - Columbia and Regionals (collectively referred to as the Campuses) is composed of the Columbia campus, including the School of Medicine with locations in Columbia and Greenville, as well as the Lancaster, Salkehatchie, Sumter and Union campuses. The Campuses are all State-supported, coeducational institutions of higher education. The Campuses' primary purpose is to provide undergraduate, graduate, and professional education to students and conduct research and other activities that advance fundamental knowledge.

Reporting Entity - The financial reporting entity, as defined by Governmental Accounting Standards Board (GASB) Codification Section 2100, *Defining the Financial Reporting Entity*, consists of the primary government, organizations for which the primary government is financially accountable and other organizations for which the nature and significance of their relationship with the primary government are such that exclusion could cause the financial statements to be misleading or incomplete. GASB Codification Section 2600, *Reporting Entity and Component Unit Presentation and Disclosure* provides criteria for determining whether certain organizations should be reported as component units based on the nature and significance of their relationship with a primary government and classifies reporting requirements for those organizations. Based on these criteria, the financial statements include the Campuses as the primary government and other related entities as discretely presented component units.

The Campuses are part of the University of South Carolina (the University) system. The University is a component unit of the State of South Carolina (the State). As a discretely presented component unit of the State, the University is financially accountable to and fiscally dependent on the State. Its Board of Trustees is appointed by the Governor and/or the General Assembly of the State.

The Campuses' discretely presented component units are discussed in Note 11.

Financial Statements - The financial statement presentation for the Campuses meets the requirements of GASB Codification Section 2100-2900, *Financial Reporting* and Co5, *Colleges and Universities*. The financial statement presentation provides a comprehensive, entity-wide perspective of the Campuses' net position, revenues, expenses and changes in net position and cash flows.

Use of Estimates - The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses and affect disclosure of contingent assets and liabilities at the date of the financial statements. Significant estimates used include separation of accrued compensated absences between current and non-current and depreciation expense. Actual results could differ from those estimates.

Basis of Accounting - For financial reporting purposes, the Campuses are considered to be engaged only in business-type activities. Accordingly, the Campuses' financial statements have been presented using the economic resources measurement focus and the accrual basis of accounting. Under the accrual basis, revenues are recognized when earned, and expenses are recorded when an obligation has been incurred. Student tuition and auxiliary enterprise fees are presented net of scholarships and fellowships applied to student accounts, while stipends and other payments made directly are presented as scholarship and fellowship expenses. All significant intra-agency transactions have been eliminated.

**UNIVERSITY OF SOUTH CAROLINA
COLUMBIA AND REGIONALS
Notes to the Financial Statements**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

Cash and Cash Equivalents - For purposes of the statement of cash flows, the Campuses consider all highly liquid investments with an original maturity of three months or less to be cash equivalents. The Campuses participate in the State's internal cash management pool, administered by the State Treasurer. Because the cash management pool operates as a demand deposit account, amounts invested in the pool are classified as cash and cash equivalents. For credit risk information pertaining to the cash management pool, see the deposits disclosures in Note 2.

The State's internal cash management pool consists of a general deposit account and several special deposit accounts. The State records each fund's equity interest in the general deposit account; however, all earnings on that account are credited to the General Fund of the State. The Campuses report deposits in the general deposit account at cost and the special deposit accounts at fair value. Interest earned, including interest income, realized gains (losses) and unrealized gains (losses), by the Campuses' special deposit accounts is posted at the end of each month based on the percentage of the Campuses' accumulated daily income receivable to the total income receivable of the pool. Realized gains and losses are allocated daily and are included in the accumulated income receivable. Unrealized gains and losses are allocated at year end based on the percentage of ownership in the pool.

Investments - The Campuses account for their investments at fair value in accordance with GASB Codification Section 150, *Investments*. Changes in unrealized gain (loss) on the carrying value of investments are reported as a component of investment income in the statement of revenues, expenses and changes in net position.

Accounts Receivable - Accounts receivable consists of tuition and fee charges to students and auxiliary enterprise services provided to students, faculty and staff. Accounts receivable also include amounts due from the Federal, State, and local governments, or private sources, in connection with reimbursement of allowable expenditures made pursuant to the Campuses' grants and contracts. Accounts receivable are recorded net of estimated uncollectible amounts.

Inventories - Inventories are carried at the lower of cost or market as determined by various methods.

Noncurrent Cash and Investments - Noncurrent cash and investments primarily consist of permanently endowed funds, debt service reserve funds and federal student loan funds. These funds are externally restricted and are classified as noncurrent assets in the statement of net position.

Prepaid Items - Expenditures for services paid for in the current or prior fiscal years and benefiting more than one accounting period are allocated among accounting periods. Amounts reported in this asset account consist primarily of rent, subscriptions, library periodicals, maintenance and service agreements, and travel reservations and deposits.

Capital Assets - Capital assets are recorded at cost at the date of acquisition or fair market value at the date of donation in the case of gifts. The Campuses follow capitalization guidelines established by the State. All land is capitalized, regardless of cost. Qualifying improvements that rest in or on the land itself are recorded as depreciable land improvements. Major additions and renovations and other improvements that add to the usable space, prepare existing buildings for new uses, or extend the useful life of an existing building are capitalized. The Campuses capitalize movable personal property with a unit value in excess of \$5,000 and a useful life in excess of two years and depreciable land improvements, buildings and improvements, and intangible assets costing in excess of \$100,000. Routine repairs and maintenance and library materials, except individual items costing in excess of \$5,000, are charged to operating expenses in the year in which the expense was incurred.

**UNIVERSITY OF SOUTH CAROLINA
COLUMBIA AND REGIONALS
Notes to the Financial Statements**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

Depreciation is computed using the straight-line method over the estimated useful lives of the assets, generally 15 to 55 years for buildings and improvements and land improvements; 2 to 25 years for machinery, equipment, and vehicles; and 3 to 10 years for intangibles. A full month of depreciation is taken the month the asset is placed in service and no depreciation is taken in the month of disposition.

The Campuses capitalize as a component of construction in progress interest cost in excess of earnings on invested debt proceeds associated with the capital projects. Therefore, asset values in capital assets include such interest costs. Capitalized interest for fiscal year 2014 was \$1,777,851.

Unearned Revenues and Deposits - Unearned revenues include amounts billed for tuition and fees and certain auxiliary activities prior to the end of the fiscal year but related to the subsequent accounting period. The majority of unearned revenues are related to auxiliary activities including, but not limited to, athletic tickets sales and parking revenues. Unearned revenues also include amounts received from grant and contract sponsors that have not yet been earned.

Deposits represent dormitory room deposits, security deposits for possible room damage and key loss, and other miscellaneous deposits. Student deposits are recognized as revenue during the semester for which the fee is applicable and earned when the deposit is nonrefundable to the student under the forfeit terms of the agreement.

Compensated Absences - Employee vacation pay expense is accrued at year-end for financial statement purposes. The liability and expense incurred are recorded at year-end as accrued compensated absences in the statement of net position, and as a component of compensation and benefit expense in the statement of revenues, expenses and changes in net position.

Noncurrent Liabilities - Noncurrent liabilities include (1) principal amounts of bonds payable, notes payable, and capital lease obligations with contractual maturities greater than one year; (2) estimated amounts for accrued compensated absences and other liabilities that will not be paid within the next fiscal year; and (3) other liabilities that, although payable within one year, are to be paid from funds that are classified as noncurrent assets.

Net Position - Components of the Campuses' net position are classified as follows:

Net investment in capital assets: This represents the Campuses' total investment in capital assets, net of outstanding debt obligations related to those capital assets. To the extent debt has been incurred but not yet expended for capital assets, such amounts are not included as a component of net investment in capital assets.

Restricted - nonexpendable: The restricted nonexpendable component of net position consists of endowment and similar type funds in which donors or other outside sources have stipulated, as a condition of the gift instrument, that the principal is to be maintained inviolate and in perpetuity, and invested for the purpose of producing present and future income, which may either be expended or added to principal.

Restricted - expendable: The restricted expendable component of net position includes resources which the Campuses are legally or contractually obligated to spend in accordance with restrictions imposed by external third parties.

**UNIVERSITY OF SOUTH CAROLINA
COLUMBIA AND REGIONALS
Notes to the Financial Statements**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

Unrestricted: The unrestricted component of net position represents resources derived from student tuition and fees, and sales and services of educational departments and auxiliary enterprises. These resources are used for transactions relating to the educational and general operations of the Campuses, and may be used at the discretion of the governing board to meet current expenses for any purpose.

The Campuses' policy for applying expenses that can use both restricted and unrestricted resources is delegated to the departmental administrative level. General practice is to first apply the expense to restricted resources then to unrestricted resources.

Income Taxes - The University is a political subdivision of the State and, is therefore, generally exempt from federal and state income taxes under applicable federal and state statutes and regulations on related income. Certain activities of the Campuses may be subject to taxation as unrelated business income.

Classification of Revenues - The Campuses have classified their revenues as either operating or nonoperating revenues according to the following criteria:

Operating revenues: Operating revenues generally result from exchange transactions to provide goods or services related to the Campuses' principal ongoing operations.

These revenues include:

- (1) student tuition and fees received in exchange for providing educational services, housing, and other related services to students;
- (2) receipts for scholarships including federal grants and contract revenue where the governmental agency has identified the qualified student recipients;
- (3) fees received from organizations and individuals in exchange for miscellaneous goods and services provided by the Campuses; and
- (4) grants and contracts that are essentially the same as contracts for services that finance programs the Campuses would not otherwise undertake.

Nonoperating revenues: Nonoperating revenues include activities that have the characteristics of nonexchange transactions. These revenues include gifts and contributions, appropriations, investment income, and any grants and contracts that are not classified as operating revenue or restricted by the grantor to be used exclusively for capital purposes.

Scholarship Allowance- Student tuition and fee revenues, and certain other revenues from students, are reported net of scholarship discounts and allowances in the statement of revenues, expenses and changes in net position. Scholarship discounts and allowances are the difference between the stated charge for goods and services provided by the Campuses, and the amount that is paid by students and/or third parties making payments on the students' behalf. Certain governmental grants, such as Pell grants, and other federal, state or nongovernmental programs, are recorded as either operating or nonoperating revenues in the Campuses' financial statements.

To the extent that revenues from such programs are used to satisfy tuition and fees and other student charges, the Campuses have recorded a scholarship discount and allowance.

**UNIVERSITY OF SOUTH CAROLINA
COLUMBIA AND REGIONALS
Notes to the Financial Statements**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

Rebatable Arbitrage - Arbitrage involves the investment of proceeds from the sale of tax-exempt securities in a taxable investment that yields a higher rate of return, resulting in income in excess of interest costs. Federal law requires entities to rebate to the government such income on tax-exempt debt if the yield from these earnings exceeds the effective yield on the related tax-exempt debt issued.

Governmental units that issue no more than \$5 million in total of all such debt in a calendar year are exempt from the rebate requirements. For this purpose, tax-exempt indebtedness includes bonds and certain capital leases and installment purchases. Rebates are payable every five years or at maturity of the debt, whichever is earlier. However, the potential liability is calculated annually for financial reporting purposes. The Campuses had no rebatable arbitrage liability at June 30, 2014.

Donor-Restricted Endowments - Endowments are subject to restrictions requiring that the principal be invested and that only the income be used for specific purposes. If a donor has not provided specific timing instructions, state law permits the Board of Trustees to authorize for expenditure the endowment's net appreciation. Any net appreciation that is spent is required to be spent for the purpose for which the endowment was established. The Campuses have a total return policy for authorizing and spending endowment income.

At June 30, 2014, \$11,534,959 of the amount reported as *net position, restricted expendable - scholarships, research, instruction and other*, represented net appreciation of donor-restricted endowments.

Adoption of New Accounting Standard - Effective for the fiscal year ending June 30, 2014 the Campuses adopted GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*. This statement establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. There were no capitalized debt issuance costs recorded in the Statement of Net Position for the year ended June 30, 2013.

NOTE 2 - CASH AND CASH EQUIVALENTS, OTHER DEPOSITS, AND INVESTMENTS

Most deposits and investments of the Campuses are under the control of the State Treasurer who, by law, has sole authority for investing State funds. Certain deposits and investments are deposited with or managed by financial institutions and brokers as restricted by donors.

**UNIVERSITY OF SOUTH CAROLINA
COLUMBIA AND REGIONALS
Notes to the Financial Statements**

NOTE 2 - CASH AND CASH EQUIVALENTS, OTHER DEPOSITS, AND INVESTMENTS, Continued

The following schedule reconciles deposits and investments within the notes to the statement of net position amounts:

Statement of Net Position		Notes	
Cash and cash equivalents (current)	\$ 330,002,120	Cash on hand	\$ 343,823
Restricted cash and cash equivalents (current) for :		Deposits held by State Treasurer	551,017,178
Debt service	8,036,405	Other deposits	141,285
Scholarship, research, instruction, and other	31,367,656	Investments held by State Treasurer	3,123,862
University administered loans	234,354	Other investments	1,883,304
Capital projects	100,245,529		
	<u>139,883,944</u>		
Restricted cash and cash equivalents (noncurrent) for:			
Endowments	72,304,133		
Federal student loans	1,482,984		
Debt service reserves	7,829,105		
	<u>81,616,222</u>		
Investments (noncurrent)	5,007,166		
	<u><u>\$ 556,509,452</u></u>		<u><u>\$ 556,509,452</u></u>

Deposits Held by State Treasurer - State law requires full collateralization of all State Treasurer bank balances. The State Treasurer must correct any deficiencies in collateral within seven days. Information pertaining to the reported amounts, fair values, and credit risk of the State Treasurer's deposits is disclosed in the Comprehensive Annual Financial Report of the State of South Carolina.

With respect to the investments in the State's internal cash management pool, all of the State Treasurer's investments are insured or registered or are investments for which the securities are held by the State or its agents in the State's name. Information pertaining to the reported amounts, fair values, and the credit risk of the State Treasurer's investments is disclosed in the Comprehensive Annual Financial Report of the State of South Carolina. For the fiscal year ending June 30, 2014, \$11,001,487 of the \$551,017,178 identified above as "Deposits held by State Treasurer" is attributable to unrealized appreciation.

Other Deposits - The Campuses' other deposits at year-end were entirely covered by federal depository insurance or were fully collateralized by securities held by the pledging bank's trust department.

Investments Held by State Treasurer and Other Investments - The Campuses' investments include common stock held by the State Treasurer for the Campuses.

The Campuses have other investments which are managed by financial institutions or brokers as specified by the donors. Purchased investments are valued at fair value. Investments received from donors are valued at the lesser of their fair value on the date promised or received or fair value as of fiscal year-end.

Custodial credit risk is the risk that in the event of a failure of the counterparty to a transaction, the Campuses will not be able to recover the value of the investments or collateral securities that are in possession of an outside party.

**UNIVERSITY OF SOUTH CAROLINA
COLUMBIA AND REGIONALS
Notes to the Financial Statements**

NOTE 2 - CASH AND CASH EQUIVALENTS, OTHER DEPOSITS, AND INVESTMENTS, Continued

The Campuses do not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Other investments totaling \$1,691,304 were collateralized by securities held by the pledging bank's trust department but not in the Campuses' name.

The net change in unrealized appreciation of investments for the current fiscal year was \$788,104.

NOTE 3 - RECEIVABLES

Accounts Receivable - Accounts receivable consisted of the following:

Student and sponsors	\$ 21,672,155
Auxiliary enterprises	5,853,154
Federal grants and contracts	20,324,393
State grants and contracts	270,223
Local grants and contracts	43,306
Non-governmental grants and contracts	2,858,536
Accrued interest	1,265,958
	<hr/>
	52,287,725
Less allowance for doubtful accounts	(4,280,904)
	<hr/>
Accounts receivable, net	<u>\$ 48,006,821</u>

Allowances for doubtful accounts are based upon actual losses experienced in prior years and evaluations of the current accounts.

Student Loans Receivable and Federal Loan Liability - Student loans made through the Federal Perkins and the Federal Nursing and Health Professions loan programs comprise substantially all of the student loans receivable, and are restricted for such loans. The loan programs provide various repayment options: students have the right to repay the loans over periods up to 10 years depending on the amount of the loan and loan cancellation privileges the student may exercise.

The amount reported as a federal loan liability is the amount of federal contributions and net earnings on the loans that would have to be repaid to the federal government if the Campuses ceased to participate in the programs.

As the Campuses determine that loans are uncollectible, the loans are assigned to the federal agency administering the loan programs.

Capital Improvement Bonds Proceeds Receivable - This amount represents outstanding state capital improvement and infrastructure bond fund proceeds, and capital reserve fund appropriations that have been expended but not yet drawn.

**UNIVERSITY OF SOUTH CAROLINA
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NOTE 3 - RECEIVABLES, Continued

The State has authorized capital improvement bonds, research infrastructure bonds, university infrastructure bonds and capital reserve fund appropriations to fund improvements and expansion of state facilities. The Campuses are not obligated to repay these funds to the State. Authorized funds can be requested once the State authorities have given approval to begin specific projects and project expenditures have been incurred.

The Campuses have \$7,923,015 of outstanding capital improvement bond authorization, \$430,551 of outstanding research infrastructure bond authorization, \$608 of outstanding university infrastructure bond authorization and \$5,369,676 of capital reserve fund appropriations. These funds are available but have not yet been drawn down because the expenditures have not been incurred.

Notes Receivable - As authorized by the South Carolina Code of Laws, the Campuses may lend certain of its endowment and auxiliary funds to the University of South Carolina Educational Foundation (the Foundation), a discretely presented component unit. Under the terms of the agreement, the Campuses will earn interest on the principal and cumulative interest balance at a monthly rate as determined by the State Treasurer.

During fiscal year 2014, the Foundation made principal payments of \$2,974,187. The remaining principal balance of \$6,445,101 and the related cumulative accrued interest receivable of \$23,847 respectively are included in notes receivable and accounts receivable, net. Interest payments of \$3,426,113 were received from the Foundation in fiscal year 2014.

NOTE 4 - CAPITAL ASSETS

	<u>June 30, 2013</u>	<u>Additions</u>	<u>Reductions</u>	<u>June 30, 2014</u>
Capital assets not being depreciated				
Land and improvements	\$ 78,157,886	\$ -	\$ -	\$ 78,157,886
Construction in progress	82,816,260	112,285,271	156,836,062	38,265,469
Works of art and historical treasures	22,220,083	5,201,779	-	27,421,862
Total capital assets not being depreciated	<u>183,194,229</u>	<u>117,487,050</u>	<u>156,836,062</u>	<u>143,845,217</u>
Other capital assets				
Land improvements	91,357,595	1,254,671	-	92,612,266
Buildings and improvements	1,134,294,291	160,549,393	-	1,294,843,684
Machinery, equipment and other	161,653,482	12,564,732	5,503,852	168,714,362
Vehicles	14,258,519	937,913	454,340	14,742,092
Intangibles	34,582,121	8,605,225	516,767	42,670,579
Total capital assets at historical cost	<u>1,436,146,008</u>	<u>183,911,934</u>	<u>6,474,959</u>	<u>1,613,582,983</u>
Less accumulated depreciation for:				
Land improvements	18,932,703	3,833,563	-	22,766,266
Buildings and improvements	479,497,386	35,368,314	-	514,865,700
Machinery, equipment and other	124,432,832	9,997,171	4,741,200	129,688,803
Vehicles	9,291,417	882,433	487,951	9,685,899
Intangibles	3,526,151	4,259,987	516,766	7,269,372
Total accumulated depreciation	<u>635,680,489</u>	<u>54,341,468</u>	<u>5,745,917</u>	<u>684,276,040</u>
Other capital assets, net	<u>800,465,519</u>	<u>129,570,466</u>	<u>729,042</u>	<u>929,306,943</u>
Capital assets, net	<u>\$ 983,659,748</u>	<u>\$ 247,057,516</u>	<u>\$ 157,565,104</u>	<u>\$ 1,073,152,160</u>

**UNIVERSITY OF SOUTH CAROLINA
COLUMBIA AND REGIONALS
Notes to the Financial Statements**

NOTE 5 - PENSION PLANS

The Retirement Division maintains five independent defined benefit plans and issues its own publicly available Comprehensive Annual Financial Report (CAFR) which includes financial statements and required supplementary information. A copy of the separately issued CAFR may be obtained by writing to the South Carolina Public Employee Benefit Authority, P.O. Box 11960, Columbia, South Carolina 29211-1960. Furthermore, the Retirement Division and the five pension plans are included in the State of South Carolina's CAFR.

These plans are administered by the Retirement Division of the South Carolina Public Employee Benefit Authority (PEBA), a public employee retirement system. Generally, all full-time or part-time equivalent State employees in a permanent position are required to participate in and contribute to the South Carolina Retirement System (SCRS) as a condition of employment unless exempted by law as provided in Section 9-1-480 of the South Carolina Code of Laws, as amended, or are eligible and elect to participate in the State Optional Retirement Program (ORP).

South Carolina Retirement System - The majority of employees of the University are covered by a retirement plan through SCRS, a cost-sharing multiple-employer defined benefit pension plan. The SCRS plan provides a life-time monthly retirement annuity benefits to eligible members as well as disability, survivor options, annual benefit adjustments, death benefits, and incidental death benefits to eligible employees and retired members. Under the SCRS, Class II members are eligible for a full service retirement annuity upon reaching age 65 or completion of 28 years of credited service regardless of age. Employees who first became members of the System after June 30, 2012 are considered Class III members and are eligible for a full service retirement annuity upon reaching age 65 or upon meeting the rule of 90 requirement (i.e., the members age plus the years of service add up to a total of at least 90). The benefit formula for full benefits effective since July 1, 1989 for the SCRS is 1.82 percent of an employee's average final compensation (AFC) multiplied by the number of years of credited service. For Class II members, AFC is the average annual earnable compensation during 12 consecutive quarters and includes an amount for up to 45 days termination pay at retirement for unused annual leave. For Class III members, AFC is the average annual earnable compensation during 20 consecutive quarters and termination pay for unused annual leave at retirement is not included. Early retirement options with reduced benefits are available as early as age 55 for Class II members and age 60 for Class III members. Class II members are vested for a deferred annuity after five years of earned service. Class III members are vested for a deferred annuity after eight years of earned service. Members qualify for a survivor's benefit upon completion of 15 years of credited service (five years effective January 1, 2002).

Disability annuity benefits are available to Class II members if they have permanent incapacity to perform regular duties of the member's job and they have at least 5 years of earned service (this requirement does not apply if the disability is a result of a job related injury). Class III members can apply for disability annuity benefits provided they have a permanent incapacity to perform the regular duties of the member's job and they have a minimum of eight years of credited service. For disability applications received after December 31, 2013, a member of SCRS will have to be approved for disability benefits from the Social Security Administration in order to be eligible for SCRS disability retirement benefits. An incidental death benefit equal to an employee's annual rate of compensation is payable upon the death of an active employee with a minimum of one year of credited service or to a working retired contributing member. There is no service requirement for death resulting from actual performance of duties for an active member. For eligible retired members, a lump-sum payment is made to the retiree's beneficiary of up to \$6,000 based on years of service at retirement.

**UNIVERSITY OF SOUTH CAROLINA
COLUMBIA AND REGIONALS
Notes to the Financial Statements**

NOTE 5 - PENSION PLANS, Continued

Effective July 1, 2013, employees participating in the SCRS were required to contribute 7.50% of all earnable compensation. The employer contribution rate for SCRS was 15.52%. Included in the total SCRS employer contribution rate is a base retirement contribution of 10.45%, .15% for the incidental death program and a 4.92% surcharge that will fund retiree health and dental insurance coverage. The Campuses actual retirement and incidental death program contributions to the SCRS for the years ended June 30, 2014, 2013, and 2012 were:

Fiscal Year Ended	Retirement		Incidental Death	
	Rate	Contribution	Rate	Contribution
2014	10.450%	\$22,313,000	0.150%	\$320,000
2013	10.450%	\$22,293,000	0.150%	\$319,000
2012	9.385%	\$19,328,000	0.150%	\$309,000

Teacher and Employee Retention Incentive - Effective January 1, 2001, Section 9-1-2210 of the South Carolina Code of Laws allows employees eligible for service retirement to participate in the Teacher and Employee Retention Incentive (TERI) Program. TERI participants may retire and begin accumulating retirement benefits on a deferred basis without terminating employment for up to five years.

Upon termination of employment or at the end of the TERI period, whichever is earlier, participants will begin receiving monthly service retirement benefits which will include any cost of living adjustments granted during the TERI period. Because participants are considered retired during the TERI period, they do not earn service credit, and are ineligible to receive group life insurance benefits or disability retirement benefits. The TERI program will end effective June 30, 2018 and a member's participation may not continue after this date. TERI participants and retired contributing members are eligible for the increased death benefit equal to their annual salary in lieu of the standard retired member benefit.

Police Officers Retirement System - The South Carolina Police Officers Retirement System (PORS) is a cost-sharing multiple employer defined benefit public employee retirement system. Generally, all full-time employees whose principal duties are the preservation of public order or the protection or prevention and control of property destruction by fire are required to participate in and contribute to PORS as a condition of employment. This plan provides lifetime monthly annuity benefits as well as disability, survivor benefits and incidental benefits to eligible employees and retirees. In addition, participating employers in the PORS contribute to the accidental death fund which provides annuity benefits to beneficiaries of police officers and firemen killed in the actual performance of their duties. These benefits are independent of any other retirement benefits available to the beneficiary.

Under the PORS, Class II members are eligible for a full service retirement annuity upon reaching age 55 or completion of 25 years of credited service regardless of age. Class III members are eligible for a full service retirement annuity upon reaching age 55 or 27 years of credited service. The benefit formula for full benefits effective since July 1, 1989 for the PORS is 2.14 percent of an employee's average final compensation (AFC) multiplied by the number of years of credited service. For Class II members, AFC is the average annual compensation during 12 consecutive quarters and includes an amount for up to 45 days termination pay for unused annual leave. For Class III members, AFC is the average annual earnable compensation during 20 consecutive quarters and termination pay for unused annual leave at retirement is not included. PORS does not have an early retirement option. Class II members are vested for a deferred annuity after five years of earned service. Class III members are vested for a deferred annuity after eight years of earned service. Members qualify for a survivor's benefit upon completion of 15 years of credited service (five years effective January 1, 2002).

**UNIVERSITY OF SOUTH CAROLINA
COLUMBIA AND REGIONALS
Notes to the Financial Statements**

NOTE 5 - PENSION PLANS, Continued

Effective July 1, 2013, employees participating in the PORS were required to contribute 7.84% of all earnable compensation. The employer contribution rate for PORS was 17.76%. Included in the total PORS employer contribution rate is a base retirement contribution of 12.44%, .20% for the incidental death program, .20% for the accidental death program, and a 4.92% surcharge that will fund retiree health and dental insurance coverage. The Campuses actual retirement, incidental death program and accidental death program contributions to the PORS for the years ended June 30, 2014, 2013, and 2012 were:

Fiscal Year Ended	Retirement		Incidental Death		Accidental Death	
	Rate	Contribution	Rate	Contribution	Rate	Contribution
2014	12.440%	\$ 617,000	0.200%	\$ 10,000	0.200%	\$ 10,000
2013	11.900%	\$ 537,000	0.200%	\$ 9,000	0.200%	\$ 9,000
2012	11.385%	\$ 469,000	0.200%	\$ 8,200	0.200%	\$ 8,200

Optional Retirement Program - As an alternative to membership to SCRS, newly hired employees of the University may elect to participate in the State Optional Retirement Program (ORP), a defined contribution plan. The ORP was established in 1987 under Title 9, Chapter 20, of the South Carolina Code of Laws. ORP participants direct the investment of their funds into a plan administered by one of four investment providers. The State assumes no liability for the ORP other than for payment of contributions to designated companies. To elect participation in the ORP, eligible employees must elect membership within their first 30 days of employment. The employer contribution rate for ORP was 10.07% plus the retiree insurance surcharge of 4.92% from the employee in fiscal year 2014. Of the 10.07% employer retirement contribution rate, the employer remits 5.00% directly to the participant's ORP account and the remaining 4.92% employee base rate contribution and .15% incidental death program contribution amounts are remitted to SCRS.

For fiscal year 2014, total contributions requirements to the ORP were approximately \$18,871,000 (excluding the surcharge) from the Campuses as employer and approximately \$14,055,000 from its employees as plan members.

Funding Policies - Article X, Section 16, of the South Carolina Constitution requires that all State-operated retirement systems be funded on a sound actuarial basis. Title 9 of the South Carolina Code of Laws of 1976, as amended, prescribes requirements relating to membership, benefit, and employee/employer contributions for each retirement system. Employee and employer contribution rates to SCRS and PORS are actuarially determined.

While the surcharge to fund retiree health and dental insurance benefits is collected by the Retirement Benefits Division of PEBA, it is remitted to the Insurance Benefits Division of PEBA, which is responsible for administration of retiree health and dental insurance benefits and establishment of the applicable retiree insurance surcharge rate.

For the current fiscal year, the SCRS and PORS do not make separate measurements of assets and pension benefit obligations for individual employers within the cost-sharing plan. Under Title 9 of the South Carolina Code of Laws, the Campuses' liability under the plans is limited to the amount of required employer contributions (stated as a percentage of covered payroll) as established by the South Carolina Public Employee Benefit Authority and as appropriated in the South Carolina Appropriation Act and from other applicable revenue sources. Accordingly, the Campuses recognize no contingent liability for unfunded costs associated with participation in the plans.

**UNIVERSITY OF SOUTH CAROLINA
COLUMBIA AND REGIONALS
Notes to the Financial Statements**

NOTE 5 - PENSION PLANS, Continued

The amounts paid by the Campuses for pension, incidental death program, and accidental death program contributions are reported as employer contribution expenditures within the applicable functional expenditure categories to which the related salaries are charged.

Deferred Compensation Plans - Several optional deferred compensation plans are available to State employees and employers of its political subdivisions. Certain employees of the University have elected to participate. The multiple-employer plans, created under Internal Revenue Code Sections 457, 401(k), and 403(b), are administered by third parties and are not included in the Comprehensive Annual Financial Report of the State of South Carolina. Compensation deferred under the plans is placed in trust for the contributing employee. The State has no liability for losses under the plans. Employees may withdraw the current value of their contributions when they terminate State employment. Employees may also withdraw contributions prior to termination if they meet requirements specified by the applicable plan.

For the fiscal year ending June 30, 2015, as a result of the implementation of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*, the Campuses will be required to recognize a proportionate share of the net pension liability of the cost sharing plans. As of the date of this report, the estimated net pension liability that will be recognized in fiscal year 2015 for the University system is approximately \$753.8 million for SCRS and \$11.2 million for PORS. These amounts will be allocated to the campus level in fiscal year 2015 based on employer contributions.

NOTE 6 - POSTEMPLOYMENT AND OTHER EMPLOYEE BENEFITS

Plan Description - In accordance with the South Carolina Code of Laws and the annual Appropriations Act, the State provides post-employment health and dental and long-term disability benefits to retired State and school district employees and their covered dependents. The Campuses contribute to the South Carolina Retiree Health Insurance Trust Fund (SCRHITF) and the South Carolina Long-Term Disability Insurance Trust Fund (SCLTDITF), cost-sharing multiple employer defined benefit postemployment healthcare, and long-term disability plans administered by the Insurance Benefits Division (IB), a part of the South Carolina Public Employee Benefit Authority (PEBA). Generally, retirees are eligible for the health and dental benefits if they have established at least ten years of retirement service credit. For new hires beginning employment May 2, 2008 and after, retirees are eligible for benefits if they have established 25 years of service for 100% employer funding and 15 through 24 years of service for 50% employer funding. Benefits become effective when the former employee retires under a State retirement system. Basic Long-Term Disability (BLTD) benefits are provided to active state, public school district, and participating local government employees approved for disability.

**UNIVERSITY OF SOUTH CAROLINA
COLUMBIA AND REGIONALS
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NOTE 6 - POSTEMPLOYMENT AND OTHER EMPLOYEE BENEFITS, Continued

Funding Policies - Section 1-11-710 of the South Carolina Code of Laws of 1976, as amended, requires these postemployment and long-term disability benefits be funded through annual appropriations by the General Assembly for active employees to the IB and participating retirees to the PEBA, except for the portion funded through the pension surcharge and provided from the other applicable sources of the IB, for its active employees who are not funded by State General Fund appropriations. Employers participating in the Retiree Medical Plan are mandated by State statute to contribute at a rate assessed each year by the Office of the State Budget, 4.92% of annual covered payroll for 2014 and 4.55% of annual covered payroll for 2013. The IB sets the employer contribution rate based on a pay-as-you-go basis. The Campuses paid approximately \$20,330,000 and \$18,060,000 applicable to the surcharge included with the employer contribution for retirement benefits for the fiscal years ended June 30, 2014 and 2013, respectively. BLTD benefits are funded through a person's premium charged to State agencies, public school districts, and other participating local governments. The monthly premium per active employee paid to IB was \$3.22 for the fiscal years ended June 30, 2014 and 2013. The Campuses recorded employer contributions expenses applicable to these insurance benefits for active employees in the amount of approximately \$210,000 and \$203,000 for the years ended June 30, 2014 and 2013, respectively.

Effective May 1, 2008 the State established two trust funds through Act 195 for the purpose of funding and accounting for the employer costs of retiree health and dental insurance benefits and long-term disability insurance benefits. The SCRHITF is primarily funded through the payroll surcharge. Other sources of funding include additional State appropriated dollars, accumulated IB reserves, and income generated from investments. The SCLTDITF is primarily funded through investment income and employer contributions.

One may obtain a copy of the complete financial statements for the benefit plans and the trust funds from PEBA Retirement Benefits and Insurance Benefits, 202 Arbor Lake Drive, Suite 360, Columbia, SC 29223.

NOTE 7 - CONTINGENCIES, LITIGATION, AND PROJECT COMMITMENTS

The Campuses are party to various lawsuits arising out of the normal conduct of its operations. In the opinion of the Campuses management, there are no material claims or lawsuits against the Campuses that are not covered by insurance or whose settlement would materially affect the Campuses' financial position.

The Campuses participate in certain Federal grant programs. These programs are subject to financial and compliance audits by the grantor or its representative. Such audits could lead to requests for reimbursement to the grantor agency for expenditures disallowed under terms of the grant. Management believes disallowances, if any, would not be material.

The Campuses had outstanding commitments under construction contracts of \$68,645,790 for capital and \$45,405,632 for noncapital projects. The Campuses anticipate funding these projects out of current resources, current and future bond issues, private gifts, student fees, and state capital improvement bond proceeds.

**UNIVERSITY OF SOUTH CAROLINA
COLUMBIA AND REGIONALS
Notes to the Financial Statements**

NOTE 8 - LEASE OBLIGATIONS

The future minimum lease payments for noncancelable operating leases are as follows:

Real Property Operating Leases

2015	\$ 2,309,852
2016	986,694
2017	506,288
2018	442,790
2019	337,120
2020-2024	654,762
2025-2029	500,000
2030-2034	500,000
2035-2038	400,000
	<hr/>
Total minimum lease payments	<u><u>\$ 6,637,506</u></u>

The preceding payment schedule relates to noncancelable operating leases having remaining terms of more than one year and expiring in various fiscal years from 2015-2038. These noncancelable operating leases include agreements between the Campuses and third party vendors as well as other State agencies and related parties. Certain operating leases provide for renewal options at their fair rental value at the end of their lease term. Total real property operating lease payments were \$3,163,650 for fiscal year 2014. Of this amount, \$551,934 was paid to other State agencies. In the current fiscal year, the Campuses incurred expenses of \$838,634 for office copier contingent rentals on a cost per copy basis.

The Campuses have a 35 year operating lease agreement for two city blocks of parking surrounding the Colonial Life Arena for \$100,000 per year. In accordance with the terms of the lease, in fiscal year 2003, the Campuses paid \$3,500,000, representing rent due for the entire term. As of June 30, 2014, the remaining unamortized prepaid balance related to the parking lease agreement was \$2,300,000 with \$100,000 reflected as a current asset.

The Campuses also have a 36 month operating lease agreement for a storefront at 258 King Street in Charleston for \$6,370 per month. In accordance with the terms of the lease, in fiscal year 2012, the Campuses paid \$229,320 representing rent due for the entire term. As of June 30, 2014, the remaining unamortized prepaid balance related to the parking lease agreement was \$70,070. This amount is reflected as a current asset.

Capital Leases - held by the Campuses as of June 30, 2014:

	<u>Cost</u>	<u>Accumulated Depreciation</u>	<u>Net</u>
Buildings	\$ 18,038,502	\$ 2,702,754	\$ 15,335,748
Equipment	548,000	11,417	536,583

**UNIVERSITY OF SOUTH CAROLINA
COLUMBIA AND REGIONALS
Notes to the Financial Statements**

NOTE 8 - LEASE OBLIGATIONS, Continued

The future minimum lease obligations and the net present value of the minimum lease payments are as follows:

2015	\$ 1,501,181
2016	1,511,348
2017	5,378,827
2018	1,100,233
2019	1,093,820
2020-2024	4,845,092
2025-2029	4,972,802
2030-2031	<u>1,717,546</u>
 Total minimum lease payments	 22,120,849
Less amount representing interest	<u>(6,220,662)</u>
 Present value of minimum lease payments	 <u><u>\$ 15,900,187</u></u>

Capital lease obligations consist of:

Agreement with the Columbia Parking Facilities Corporation payable in monthly principal payments ranging from \$30,000 to \$80,000 and a payment of approximately \$4,000,000 due in March 2017. Interest rates range from 5.085% to 6.815%. This agreement expires in March 2031.

\$ 15,369,142

Agreement with Hewlett Packard payable in monthly principal interest payments of \$9,859 with a fixed interest rate of 3.05%. This agreement expires in April 2019.

531,045

\$ 15,900,187

**UNIVERSITY OF SOUTH CAROLINA
COLUMBIA AND REGIONALS
Notes to the Financial Statements**

NOTE 9 - BONDS AND NOTES PAYABLE

Bonds Payable - Bonds payable consisted of the following:

	Original Debt	Interest Rates (Outstanding)	Maturity Dates	June 30, 2014 Balance	Debt Retired in Fiscal Year 2014
State Institution Bonds					
Series 2003I	\$ 7,000,000	3.75%	10/01/13	\$ -	\$ 330,000
Series 2006B	40,250,000	3.25% to 5.25%	04/01/26	27,355,000	1,720,000
Series 2011A Refunding	18,525,000	2.25% to 5.0%	03/01/22	15,215,000	1,635,000
Series 2011E	20,420,000	2.25% to 5.0%	03/01/31	18,235,000	750,000
Series 2012A Refunding	20,156,000	2.25% to 5.0%	04/01/24	15,727,000	2,564,000
Series 2014A	11,740,000	3.0% to 5.0%	04/01/34	11,740,000	-
Total State Institution Bonds				88,272,000	6,999,000
Revenue Bonds					
Series 2005A	12,400,000	3.725% to 5.0%	05/01/35	10,130,000	300,000
Series 2005A Refunding	45,245,000	4.0% to 5.0%	06/01/30	31,000,000	2,125,000
Series 2008A	48,225,000	3.5% to 5.25%	06/01/38	43,785,000	965,000
Series 2008A Athletic	27,395,000	4.0% to 5.5%	05/01/38	26,710,000	605,000
Series 2010A	28,510,000	3.0% to 5.0%	06/01/40	26,390,000	555,000
Series 2010A Athletic	65,855,000	4.0% to 5.0%	05/01/40	61,730,000	1,190,000
Series 2010B Refunding Athletic	12,840,000	3.0% to 5.0%	05/01/27	11,410,000	585,000
Series 2012	61,945,000	3.0% to 5.0%	05/01/35	61,945,000	-
Series 2012 Refunding	26,025,000	2.0% to 5.0%	05/01/34	25,115,000	910,000
Series 2012A Athletic	13,580,000	2.0% to 4.0%	05/01/42	13,050,000	285,000
Series 2012B Refunding Athletic	6,350,000	3.5%	05/01/32	6,350,000	-
Series 2013	26,295,000	3.0% to 5.0%	05/01/43	26,295,000	-
Total Revenue Bonds				343,910,000	7,520,000
Subtotal bonds payable				432,182,000	14,519,000
Plus unamortized bond premiums				30,641,553	1,745,014
Less unamortized bond discounts				(232,200)	(12,900)
Total Bonds Payable				\$ 462,591,353	\$ 16,251,114

State Institution bonds are general obligation bonds of the State backed by the full faith, credit, and taxing power of the State. Tuition revenue is pledged up to the amount of the annual debt requirements for the payment of principal and interest on state institution bonds. Tuition revenue pledged in fiscal year 2014 was \$24,726,493 for state institution bonds.

General revenue bonds are payable from a pledge of net revenues derived by the Campuses from the operation of the facilities constructed with the bond proceeds. General revenue bonds may also be payable from a pledge of additional funds. Additional funds are all available funds and academic fees of the Campuses which are not (i) otherwise designated or restricted; (ii) funds derived from appropriations; and (iii) tuition funds pledged to the repayment of state institution bonds. Pledged net revenues for general revenue bonds in fiscal year 2014 were \$12,642,300 from sales and services of auxiliary enterprises.

**UNIVERSITY OF SOUTH CAROLINA
COLUMBIA AND REGIONALS
Notes to the Financial Statements**

NOTE 9 - BONDS AND NOTES PAYABLE, Continued

Athletic facilities revenue bonds are payable from a pledge of net revenues of the athletic department, gross receipts of a special admission fee to facilities and a special student fee as authorized by the governing board. Pledged revenues for athletic facilities revenue bonds in fiscal year 2014 consisted of \$1,691,154 in special student fees, \$4,072,001 in special admission fees and \$2,580,733 in athletic department revenues included in sales and services of auxiliary enterprises.

The Campuses believe they are in compliance with all related bond covenants of their issued debt.

On June 1, 2014 the Campuses issued \$11,740,000 in State Institution bonds for the renovation of classroom facilities.

The scheduled maturities of the Campuses' bonds payable by type are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
State Institution Bonds			
2015	\$ 7,696,000	\$ 3,743,031	\$ 11,439,031
2016	7,961,000	3,487,654	11,448,654
2017	6,007,000	3,154,241	9,161,241
2018	6,281,000	2,882,791	9,163,791
2019	6,541,000	2,598,779	9,139,779
2020-2024	31,901,000	8,110,334	40,011,334
2025-2029	15,120,000	2,903,462	18,023,462
2030-2034	6,765,000	627,288	7,392,288
Total	<u>\$ 88,272,000</u>	<u>\$ 27,507,580</u>	<u>\$ 115,779,580</u>
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
Revenue Bonds			
2015	\$ 8,305,000	\$ 16,172,938	\$ 24,477,938
2016	9,965,000	15,825,988	25,790,988
2017	10,375,000	15,423,513	25,798,513
2018	10,810,000	14,979,213	25,789,213
2019	11,245,000	14,550,788	25,795,788
2020-2024	64,095,000	64,541,888	128,636,888
2025-2029	75,700,000	48,404,756	124,104,756
2030-2034	81,715,000	29,673,231	111,388,231
2035-2039	57,860,000	10,951,313	68,811,313
2040-2043	13,840,000	1,027,600	14,867,600
Total	<u>\$ 343,910,000</u>	<u>\$ 231,551,228</u>	<u>\$ 575,461,228</u>

**UNIVERSITY OF SOUTH CAROLINA
COLUMBIA AND REGIONALS
Notes to the Financial Statements**

NOTE 9 - BONDS AND NOTES PAYABLE, Continued

Notes Payable - Notes payable consisted of the following:

Note payable secured by printing press equipment, dated September 2007, payable in semi-annual installments of \$43,008, matures September 2014, fixed interest rate of 3.6%. \$ 42,247

Note payable to acquire rare Indian pottery collection, dated December 2008, payable in annual installments of \$31,458, matures December 2015, imputed fixed interest rate of 2.15%. 61,001

Note payable for energy efficiency projects, dated January 2011, payable in annual installments of \$5,831, at no interest, matures January 2015. 5,747

Note payable for energy efficiency projects, dated September 2009, payable in annual installments of \$3,289, at no interest, matures September 2014. 3,289

\$ 112,284

The scheduled maturities of the notes payable are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2015	\$ 81,459	\$ 2,073	\$ 83,532
2016	30,825	663	31,488
Total	<u>\$ 112,284</u>	<u>\$ 2,736</u>	<u>\$ 115,020</u>

**UNIVERSITY OF SOUTH CAROLINA
COLUMBIA AND REGIONALS
Notes to the Financial Statements**

NOTE 10 - LONG-TERM LIABILITIES

Long-term liability activity was as follows:

	<u>June 30, 2013</u>	<u>Additions</u>	<u>Reductions</u>	<u>June 30, 2014</u>	<u>Due Within One Year</u>
Bonds Payable:					
State Institution Bonds	\$ 83,531,000	\$ 11,740,000	\$ 6,999,000	\$ 88,272,000	\$ 7,696,000
Revenue Bonds	351,430,000	-	7,520,000	343,910,000	8,305,000
Subtotal Bonds Payable	434,961,000	11,740,000	14,519,000	432,182,000	16,001,000
Unamortized Bond Premiums	31,297,333	1,089,234	1,745,014	30,641,553	1,799,334
Unamortized Bond Discounts	(245,100)	-	(12,900)	(232,200)	(12,900)
Total Bonds Payable	466,013,233	12,829,234	16,251,114	462,591,353	17,787,434
Notes Payable	240,292	-	128,008	112,284	81,459
Total Bonds and Notes Payable	<u>\$ 466,253,525</u>	<u>\$ 12,829,234</u>	<u>\$ 16,379,122</u>	<u>\$ 462,703,637</u>	<u>\$ 17,868,893</u>
Capital Lease Obligations	\$ 15,909,142	\$ 548,000	\$ 556,955	\$ 15,900,187	\$ 643,555
Accrued Compensated Absences	\$ 28,037,962	\$ 18,085,268	\$ 16,201,935	\$ 29,921,295	\$ 16,157,500

Additional information regarding bonds and notes payable is included in Note 9.

NOTE 11 - COMPONENT UNITS

Certain separately chartered legal entities whose activities are related to those of the Campuses exist primarily to provide financial assistance and other support to the Campuses and their educational programs. They include the South Carolina Research Foundation and the University of South Carolina School of Medicine Educational Trust (the Trust), both of which are considered governmental component units. In addition, the University of South Carolina Development Foundation; the University of South Carolina Educational Foundation; the University of South Carolina Business Partnership Foundation; the Greater University of South Carolina Alumni Association; and the Educational Foundation of the University of South Carolina - Lancaster are considered nongovernmental component units because they do not meet the definition of a governmental entity. Because the activities and resources of these entities are significant, provide a direct benefit, and are accessible to the Campuses, they are considered component units of the Campuses and are discretely presented in the Campuses' financial statements accordingly as governmental or non-governmental reporting entities.

Following is a more detailed discussion of each of these entities and a summary of significant transactions (if any) between these entities and the Campuses.

Governmental Discretely Presented Component Units

The South Carolina Research Foundation (the Foundation) exists exclusively to facilitate the Campuses' teaching, research, and public service missions. It will support research programs of clear relevance to the state and nation. The research areas focus on the environment, new technologies, economic development, health sciences and social issues. The Foundation receives research funding from private sources and also competes for federal funds. The Campuses receive funds for research from the Foundation. In 2013, the Campuses and Foundation management agreed to administrative process changes that allowed the Campuses to resume their historic role of directly processing new federal grant and contract transactions.

**UNIVERSITY OF SOUTH CAROLINA
COLUMBIA AND REGIONALS
Notes to the Financial Statements**

NOTE 11 - COMPONENT UNITS, Continued

The Campuses expect that over a period of five years this decision will result in the University processing all federal grant and contract transactions and an equal reduction in the federal grant activities processed by the Research Foundation. Complete financial statements for the Foundation can be obtained at USC Foundations, 208 Osborne Building, USC, Columbia, SC 29208, Attention: Russell Meekins.

The University of South Carolina School of Medicine Educational Trust and Clinical Faculty Practice (the Trust) is organized and operates exclusively for the benefit of, to perform the functions of, or to carry out the purposes of the University of South Carolina School of Medicine. The Trust is governed by a board consisting of the Dean of the University's School of Medicine, the Chairman of each of the twelve departments of the School of Medicine, as well as other employees of the University School of Medicine. The Trust is exempt from income taxes under Section 501(a) of the Internal Revenue Code as an organization described under Section 501(c)(3). In order to conform to the Campuses' fiscal year end and other operational reasons, the Trust changed the end of its financial reporting period to June 30. This change was effective for the inclusion in the financial statements of the Campuses on June 30, 2013. Complete financial statements for the Trust can be obtained at the University of South Carolina School of Medicine Educational Trust, Post Office Box 413, Columbia, South Carolina 29202.

Non-Governmental Discretely Presented Component Units

The University of South Carolina Development Foundation (the Foundation) operates exclusively for the benefit of, to perform the functions of, or to carry out the purposes of the Campuses including, but not limited to, promoting, encouraging, and aiding scientific research and investigation at the Campuses. The Campuses receive funds for rent and reimbursement for computer and personnel services provided by the Campuses from the Foundation. The Campuses also pay the Foundation for the lease of real property and for research programs. Complete financial statements for the Foundation can be obtained at USC Foundations, 208 Osborne Building, USC, Columbia, SC 29208, Attention: Russell Meekins.

The University of South Carolina Educational Foundation (the Foundation) operates for the benefit and support of the Campuses. Its objectives include the establishment and implementation of long-range fundraising programs to assist in the expansion and improvement of the educational functions of the Campuses. The Campuses receive from the Foundation funds for scholarships, awards and stipends to students, faculty and administrative staff; library collections; reimbursement for computer and personnel services provided by the Campuses; and interest earnings on notes receivable from the Foundation (See Note 3). As of June 30, 2014 the Foundation held \$241,495,092 in endowment funds for the Campuses. Complete financial statements for the Foundation can be obtained at USC Foundations, 208 Osborne Building, USC, Columbia, SC 29208, Attention: Russell Meekins.

The University of South Carolina Business Partnership Foundation (the Foundation) was formed to bring together representatives of business and government to assist in conducting conferences, seminars, and management programs to further the education, development and effectiveness of management personnel in the State and region. The Campuses receive funds for scholarships, reimbursement of personnel services, fringe benefits and other administrative costs from the Foundation. Complete financial statements for the Foundation can be obtained at USC Foundations, 208 Osborne Building, USC, Columbia, SC 29208, Attention: Russell Meekins.

**UNIVERSITY OF SOUTH CAROLINA
COLUMBIA AND REGIONALS
Notes to the Financial Statements**

NOTE 11 - COMPONENT UNITS, Continued

The Greater University of South Carolina Alumni Association (the Association) was formed to serve the students after they graduate. The Association's objectives are providing job placement and counseling, communicating the aspirations and needs of the Campuses, helping graduates keep in touch with one another, and providing programs of continuing education. The Campuses receive funds for scholarships from the Association and provide office and meeting space at no cost to the Association. Complete financial statements for the Association can be obtained at USC Foundations, 208 Osborne Building, USC, Columbia, SC 29208, Attention: Russell Meekins.

The Educational Foundation of the University of South Carolina - Lancaster (the Foundation) operates for the benefit and support of the University of South Carolina at Lancaster (the Campus). Its objectives include the establishment and implementation of long-range fund-raising programs to assist in the expansion and improvement of the educational functions of the Campus. The Campus receives from the Foundation funds for scholarships, rent, and reimbursement for computer and personnel services provided by the Campus. Complete financial statements for the Foundation can be obtained at PO Box 809, Lancaster, SC 29721.

Various transactions occur between the Campuses and the component units. A summary of those transactions follows:

Funds Received from Component Units

South Carolina Research Foundation	\$ 18,932,981
USC School of Medicine Educational Trust	5,324,437
USC Development Foundation	87,732
USC Educational Foundation	24,144,057
USC Business Partnership Foundation	1,309,553
Greater USC Alumni Association	104,419
Educational Foundation of USC Lancaster	28,844
	<hr/>
	<u>\$ 49,932,023</u>

Funds Paid to Component Units

South Carolina Research Foundation	\$ 125,461
USC School of Medicine Educational Trust	2,812,633
USC Development Foundation	375,037
USC Educational Foundation	234,899
USC Business Partnership Foundation	340
Educational Foundation of USC Lancaster	1,786
	<hr/>
	<u>\$ 3,550,156</u>

The majority of the South Carolina Research Foundation revenues are recorded by the Campuses as federal grants and contracts revenues and the majority of revenues from the other component units are recorded as private gifts revenue. Federal grants and contracts receivables include \$10,469,995 due from the South Carolina Research Foundation at June 30, 2014.

**UNIVERSITY OF SOUTH CAROLINA
COLUMBIA AND REGIONALS
Notes to the Financial Statements**

NOTE 12 - RELATED PARTIES

There are several separately chartered legal entities which do not meet the criteria established by GASB Statement No. 14, *The Financial Reporting Entity*, and GASB Statement No. 39, *Determining Whether Certain Organizations are Component Units - An Amendment of GASB Statement No. 14*, to be treated as component units of the Campuses. These entities are the local higher education commissions. While they are not financially accountable to the Campuses, these organizations exist primarily to provide financial assistance and other support to the Campuses and educational programs. The activities of these entities are not included in the Campuses' financial statements. However, the Campuses' statements for the year ended June 30, 2014 include significant transactions between them and the Campuses which are as follows:

Lancaster County Commission for Higher Education - The Lancaster County Commission for Higher Education (the Commission) was created under Act 126 of the 1959 Session of the General Assembly of South Carolina. The Commission is composed of seven members who are appointed by the Governor on the recommendation of a majority of the Lancaster County Legislative Delegation, including the Senator. The Commission's purpose is the encouragement of higher education in Lancaster and adjacent areas and, more specifically, the establishment in Lancaster County of facilities to offer standard freshman and sophomore college courses, and such other courses as deemed desirable. The Commission is empowered to enter into contracts, make binding agreements, negotiate with educators and educational institutions and, generally, take such actions in its name as are necessary to secure for Lancaster County and adjacent areas the necessary educational facilities to provide higher education. The Commission receives an annual appropriation from Lancaster County designated specifically for the University of South Carolina Lancaster (USC Lancaster). During the fiscal year ended June 30, 2014, the Commission received an annual appropriation of \$1,255,153. The Commission disbursed \$1,100,000 to USC Lancaster for operations and maintenance of the physical plant and \$10,474 to vendors for insurance, professional services, and commencement expenses. USC Lancaster provides accounting and cash management services to the Commission at no charge. At June 30, 2014, the Commission had a net position of \$147,906.

Western Carolina Higher Education Commission - The Western Carolina Higher Education Commission (the Commission) was created under Act 270 in the 1984 Session of the General Assembly of South Carolina. The Commission is composed of ten members, two of whom are from each of the following counties: Allendale, Bamberg, Barnwell, Colleton, and Hampton. The members are appointed by the Governor upon the recommendation of a majority of the Legislative Delegations from the respective counties. The Commission's purpose is the encouragement of higher education in the respective counties and adjacent areas and, more specifically, the establishment of facilities to offer standard freshman and sophomore college courses, and such other courses as deemed desirable. The Commission is empowered to enter into contracts, make binding agreements, negotiate with educators and educational institutions and, generally, take such actions in its name as are necessary to secure for its respective counties and adjacent areas the necessary educational facilities to provide higher education. The Commission receives an annual appropriation from Allendale, Bamberg, Barnwell, Colleton, and Hampton counties to accomplish these objectives. The Commission paid expenditures on behalf of the University of South Carolina Salkehatchie (USC Salkehatchie) of \$97,951 for the fiscal year ended June 30, 2014. The Commission allows the use of its land and buildings to USC Salkehatchie at no cost. USC Salkehatchie provides accounting and cash management services to the Commission at no charge, including management of the operating portion of its cash. At June 30, 2014, the Commission had a net position of \$110,964.

**UNIVERSITY OF SOUTH CAROLINA
COLUMBIA AND REGIONALS
Notes to the Financial Statements**

NOTE 12 - RELATED PARTIES, Continued

Mid-Carolina Commission for Higher Education, formerly known as Sumter County Commission for Higher Education - The Sumter County Commission for Higher Education was created under Act 50 of the 1965 Session of the General Assembly of South Carolina. In 1996, by an act of the state legislature, the Sumter County Commission for Higher Education was restructured as the Mid-Carolina Commission for Higher Education (the Commission) representing Sumter, Lee, and Clarendon Counties. The nine commission members are appointed by the Governor upon recommendation by the respective county legislative delegations, with one each from Lee and Clarendon Counties, and the remaining seven members from Sumter County. The purpose of the Commission is the encouragement of higher education in Sumter County and adjacent areas and, more specifically, the establishment in Sumter County of facilities to offer standard freshman and sophomore college courses, and such other courses as deemed desirable. The Commission is empowered to enter into contracts, make binding agreements, negotiate with educators and educational institutions and, generally, take such actions in its name as are necessary to secure for its respective counties and adjacent areas the necessary educational facilities to provide higher education. The University of South Carolina Sumter (USC Sumter) operates the Sumter Campus under contract with the Commission at a cost of \$1 annually. During the fiscal year ended June 30, 2014, the Commission made payments to USC Sumter totaling \$264,264 for the operation and maintenance of the campus. At June 30, 2014, the Commission had a net position of \$264,003.

Union Laurens Commission for Higher Education - The Union County Commission for Higher Education was created by Act 23 in the 1965 Session of the General Assembly of South Carolina and was repealed by Act 288 of the 1987 Session of the General Assembly of South Carolina which created the Union Laurens Commission for Higher Education (the Commission). The Commission is composed of nine members, with seven being residents of Union County and two being residents of Laurens County. The members are appointed by the Governor upon recommendation by the Union and Laurens County Legislative Delegations. The Commission is responsible for the encouragement of higher education in Union and Laurens Counties and adjacent areas and, more specifically, the establishment in Union and Laurens Counties of facilities to offer standard freshman and sophomore college courses and those other courses considered desirable. The Commission is empowered to enter into contracts, make binding agreements, negotiate with educators and educational institutions and, generally, take such actions in its name as are necessary to secure for its respective counties and adjacent areas the necessary educational facilities to provide higher education. The Commission receives an annual appropriation from Union and Laurens counties of \$153,040 to accomplish these objectives. During the year ended June 30, 2014, the Commission made grants to the University of South Carolina Union (USC Union) totaling \$165,830 for campus projects and maintenance, rental of facilities, community service and institutional support. The Commission provides its land and buildings to USC Union at no cost. USC Union provides clerical, accounting, and cash management services to the Commission at no charge. At June 30, 2014, the Commission had a net position of \$2,346,275.

**UNIVERSITY OF SOUTH CAROLINA
COLUMBIA AND REGIONALS
Notes to the Financial Statements**

NOTE 13 - RISK MANAGEMENT

The Campuses have a comprehensive risk management program which incorporates the fundamentals of risk identification, risk evaluation, risk control and risk financing alternatives in reducing loss potential. The risk management office mitigates the financial consequences of physical, human, and financial loss by purchasing insurance through the State Budget and Control Board Office of the Insurance Reserve Fund (IRF). As needed, the IRF policies are supplemented by the purchase of policies through the private insurance market. Several sections of the South Carolina Code of Laws authorize and require the State Budget and Control Board, through the IRF, to provide insurance to governmental entities. These statutes in turn require most state entities to purchase insurance through the IRF. These sections include:

Title 1 - Administration of Government, Section 1-11-140-141. Authority to provide tort liability insurance to governmental entities, their employees, and charitable medical facilities.

Title 1 - Administration of Government: Section 1-11-147. Automobile Liability Reinsurance.

Title 10 - Public Buildings and Property: Section 10-7-10 through 10-7-40. Authority to insure public buildings and contents.

Title 10 - Public Buildings and Property: Section 10-7-12. Authority to purchase reinsurance.

Title 10 - Public Buildings and Property: Section 10-7-130. Authority to hold monies paid as premiums for the purpose of paying Insured losses.

Title 11 - Public Finance: Section 11-9-75. Debt Collection Procedures.

Title 15 - Civil Remedies and Procedures: Section 15-78-10 through 15-78-150. S.C. Governmental Tort Claims Act. Authority to provide liability insurance.

Title 38 - Insurance: Section 38-13-190. Requires South Carolina Insurance Department Audits of Insurance Reserve Fund Finance.

Title 59 - Education: Section 59-67-710 & 59-67-790. Authority to insure school buses and pupils transported by school bus.

Title 59 - Education: Section 59-67-790. Pupil Injury Fund.

The IRF functions as a governmental insurance operation with the mission to provide insurance specifically designed to meet the needs of governmental entities at the lowest possible cost. The IRF operates like an insurance company, by issuing policies, collecting premiums (based on actuarially calculated rates), and by paying claims from the accumulated premiums in accordance with the terms and conditions of the insurance policies it has issued.

All premiums received by the IRF are deposited with the Office of the State Treasurer where the funds are maintained as the IRF Trust Account. By statutory requirement, these funds are to be used to pay claims and operating expenses of the fund. The Office of the State Treasurer is responsible for investing these funds. The costs of settled claims have not exceeded the Campuses' insurance coverage in any of the past three years.

**UNIVERSITY OF SOUTH CAROLINA
COLUMBIA AND REGIONALS
Notes to the Financial Statements**

NOTE 13 - RISK MANAGEMENT, Continued

The IRF uses no agents, brokers, or advertising, and does not actively solicit accounts. The lack of a profit motive and the lack of acquisition expenses such as agents' commissions, along with the use of the investment income in rate determination allow the IRF to maintain the lowest possible rate structure. Not all governmental entities elect to purchase their insurance through the IRF. The South Carolina Tort Claims Act allows political subdivisions of the State access to other mechanisms to meet their insurance needs at their discretion. Some entities participate in other self-insurance pools, some purchase commercial insurance, and some elect to self-insure their insurance exposures.

The various types of property insurance policies maintained by the Campuses include: Building and Personal Property, Inland Marine, Data Processing Equipment, Business Interruption and Builders' Risk. Additionally, Risk Management maintains a variety of casualty insurance policies including Automobile and Aircraft Property Damage and Liability, Directors and Officers Liability, General Tort Liability, Medical Professional Liability, an Employee Fidelity Bond, and Student Workers' Compensation.

NOTE 14 - BIOMASS FACILITY

In August 2004, the University entered into an agreement with Johnson Controls Incorporated (JCI) to construct and operate a Biomass facility. The purpose of the facility was to gasify woodchips for the production of steam at a cost below what would be required using conventional methods. Construction of the facility was completed in June 2007 at which time it was placed in service at a cost of approximately \$19.2 million. Since being placed in service the facility operated intermittently and was deemed inoperable. During fiscal year 2013, the University determined that the existing technology employed to operate the facility was not viable and recorded an impairment loss in the amount of the remaining net book value of \$13,990,218. This impairment loss was included within the "Loss on disposal of capital assets" on the Statement of Revenues, Expenses and Changes in Net Position for fiscal year 2013. During fiscal year 2014, the University received approximately \$14.4 million from JCI as a financial settlement for the Biomass facility termination agreement. Approximately \$2.1 million was applied to an existing receivable from JCI. The remaining \$12.3 million was recognized as "Biomass termination agreement" on the Statement of Revenues, Expenses, and Changes in Net Position for fiscal year 2014.

NOTE 15 - OPERATING EXPENSES BY FUNCTION

Operating expenses by functional classification are summarized as follows:

	<u>Salaries and Wages</u>	<u>Fringe Benefits</u>	<u>Services and Supplies</u>	<u>Utilities</u>	<u>Scholarships and Fellowships</u>	<u>Depreciation</u>	<u>Total</u>
Instruction	\$212,627,211	\$ 62,630,378	\$ 34,003,102	\$ 91,493	\$ 605,313	\$ -	\$309,957,497
Research	61,717,457	21,260,932	33,222,238	6,350	289,160	-	116,496,137
Public service	29,422,739	8,162,995	12,307,328	27,455	160,991	-	50,081,508
Academic support	44,437,201	12,571,798	21,341,442	23,366	12,767	-	78,386,574
Student services	26,344,562	7,038,254	21,999,940	867,926	60,324	-	56,311,006
Institutional support	34,630,244	10,525,538	1,207,383	172,794	24,380	-	46,560,339
Operation & plant maintenance	21,937,512	7,330,318	35,188,914	20,625,733	1,929	-	85,084,406
Auxiliary enterprises	45,427,420	9,790,757	56,826,632	8,101,056	633,149	-	120,779,014
Scholarships and fellowships	130,297	1,216,406	160,955	-	14,618,555	-	16,126,213
Depreciation	-	-	-	-	-	54,341,468	54,341,468
Total operating expenses	<u>\$476,674,643</u>	<u>\$140,527,376</u>	<u>\$216,257,934</u>	<u>\$ 29,916,173</u>	<u>\$ 16,406,568</u>	<u>\$ 54,341,468</u>	<u>\$934,124,162</u>



**Independent Auditor's Report on Internal Control Over Financial Reporting
and on Compliance and Other Matters Based on an Audit of Financial Statements
Performed In Accordance With *Government Auditing Standards***

The Board of Trustees
University of South Carolina
Columbia, South Carolina

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the business-type activities, the aggregate discretely presented component units of the University of South Carolina - Columbia and Regionals (the Campuses), campuses of the University of South Carolina, as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the Campuses' basic financial statements, and have issued our report thereon dated November 21, 2014. Our report includes a reference to other auditors who audited the financial statements of the University of South Carolina School of Medicine Educational Trust (the Trust); South Carolina Research Foundation; the University of South Carolina Educational Foundation; the University of South Carolina Business Partnership Foundation; the Greater University of South Carolina Alumni Association; and the Educational Foundation of the University of South Carolina-Lancaster, (collectively referred to as the Trust and the Foundations), as described in our report on the Campuses' financial statements. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors. The financial statements of the Trust and Foundations, excluding the South Carolina Research Foundation, were not audited in accordance with *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Campuses' internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Campuses' internal control. Accordingly, we do not express an opinion on the effectiveness of the Campuses' internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Campuses' financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in black ink that reads "Elliott Davis, LLC". The signature is written in a cursive, flowing style.

Columbia, South Carolina
November 21, 2014